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Security Council

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Letter dated 4 June 2001 from the Permanent Representative of Liberia to the United Nations addressed to the President of the Security Council

Upon instruction from my Government, I have the honour to transmit herewith a letter addressed to the President of the Security Council for the month of May by Charles Ghankay Taylor, President of the Republic of Liberia (see annex), which, regrettably, was inadvertently not delivered. The original letter was forwarded through the Office of the Special Representative of the Secretary-General in Monrovia for onward transmission.

I should be grateful if you would have the present letter and its annex circulated as a document of the Security Council.

(*Signed*) Lami **Kawah**
Ambassador
Permanent Representative

01-40092 (E) 060601

Annex to the letter dated 4 June 2001 from the Permanent Representative of Liberia to the United Nations addressed to the President of the Security Council

I wish to refer to my recent letter addressed to the Secretary-General and to the series of subsequent letters to the United Nations informing it of the armed attacks against Liberia from the territory of the Republic of Guinea, which have resulted in the occupation of portions of Liberia's northern territory of Lofa, the destruction of lives and property and the internal displacement of over 450,000 Liberians. The Government of Guinea, in disregard of the Economic Community of West African States and Mano River Union non-aggression protocols, has continued to support Liberian dissident forces of the former warring faction, the United Liberation Movement for Democracy in Liberia (ULIMO), in its armed aggression against the Republic of Liberia. From the testimonies of prisoners of war in Liberian government custody as well as captured British government materiel (with United Kingdom Ministry of Defence inscriptions), it has been confirmed that the Guinean Government, the Sierra Leonean Government through the Kamajors militia, and the British Government, which have supplied arms and ammunition to the dissident forces through the Kamajors, are militarily supporting the Liberian dissidents.

In the face of these armed attacks against the territory of Liberia and the consequent suffering of the Liberian people, my Government is under a moral and constitutional responsibility to defend and protect the Liberian nation. Furthermore, as a member of the United Nations and consistent with the provisions of Article 51 of the Charter of the United Nations, Liberia has a right to self-defence in the wake of armed aggression. Unfortunately, and despite my Government's representations to the United Nations, the Security Council has yet to fulfil its responsibility to maintain peace in Liberia.

The present Security Council arms embargo imposed on Liberia has impaired Liberia's capacity to defend itself against external armed aggression. The intent of resolution 1343 (2001) was never to deny the Liberian Government the means of self-defence in the wake of armed aggression.

Furthermore, we believe the Security Council is under an obligation to take action against Guinea and Sierra Leone for violation of paragraph 4 of resolution 1343 (2001), which calls upon Member States of the Mano River Union "to prevent armed individuals and groups from using their territory to prepare and commit attacks on neighboring countries ...".

In view of the foregoing, my Government herewith requests that the Security Council grant a limited waiver of the arms embargo to permit the Government of Liberia to import essential military supplies for the sole purpose of its self-defence. A listing of items to be included under this waiver will subsequently be forwarded to the Council upon its reaction to this request.

(*Signed*) Charles Ghankay **Taylor**

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Letter dated 5 June 2001 from the Permanent Representative of Yugoslavia to the United Nations addressed to the President of the Security Council

The Special Representative of the Secretary-General of the United Nations, Hans Haekkerup, has decided that general elections in Kosovo and Metohija, Federal Republic of Yugoslavia, will be held on 17 November 2001. He also promulgated, on 15 May 2001, the Constitutional Framework for Provisional Self-Government in Kosovo (Constitutional Framework).

The Federal Republic of Yugoslavia supports the process of establishment of provisional institutions of self-government in Kosovo and Metohija, in accordance with Security Council resolution 1244 (1999), and is ready to cooperate fully with the United Nations, the United Nations Interim Administration Mission in Kosovo and the Special Representative of the Secretary-General. At the same time, however, the Government of the Federal Republic of Yugoslavia has the constitutional obligation to protect the territorial integrity and sovereignty of the State, as well as rights of all its citizens. For that reason, it has been compelled to bring to the attention of the Security Council the following serious concerns and reservations with regard to the Constitutional Framework and the holding of general elections in Kosovo and Metohija under present circumstances:

1. In its resolution 1244 (1999), the Security Council unequivocally reaffirmed the commitment of all States Members of the United Nations "to the sovereignty and territorial integrity of the Federal Republic of Yugoslavia and the other States of the region, as set out in the Helsinki Final Act and annex 2" to resolution 1244 (1999). Annex 2 defines the principles to move towards resolution of the Kosovo crisis, one of which is a "political process towards the establishment of an interim political framework agreement providing for substantial self-government in Kosovo, *taking full account of* the Rambouillet accords and *the principles of sovereignty and territorial integrity of the Federal Republic of Yugoslavia* and the other countries in the region ..." (emphasis added).

This statement reflects a fundamental principle of international law according to which all States and international organizations, such as the United Nations, shall respect the territorial integrity and sovereignty of any State. This principle also binds the Special Representative of the Secretary-General. However, certain elements of the Constitutional Framework for Kosovo and Metohija disregard this principle and resolution 1244 (1999), in particular the following:

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1.1 There is no express reference to the fact that Kosovo and Metohija is a part of the Federal Republic of Yugoslavia and the Republic of Serbia, which is an unacceptable omission.

1.2 The use of the term "constitutional" in the title implies that the document is a constitution of a State, which it is not and cannot be.

1.3 There are a number of references to "the people of Kosovo" (e.g., preamble; article 1.1; article 9.2.1). Any such reference cannot bear or imply any connection with the notion of "peoples" or the principle of "equal rights and self-determination of peoples" contained in the Charter of the United Nations or, for example, in the Declaration on Principles of International Law concerning Friendly Relations and Cooperation among States in accordance with the Charter of the United Nations (General Assembly resolution 2625 (XXV) (1970)).

1.4 The provisions on the President of Kosovo and Metohija and his/her responsibilities "in the field of external relations", as well as provisions concerning certain responsibilities of provisional institutions in this field, are contrary to the letter and the spirit of resolution 1244 (1999). As a part of the Federal Republic of Yugoslavia and the Republic of Serbia, Kosovo and Metohija is represented in international relations by the Government of the Federal Republic of Yugoslavia or, to the extent allowed under resolution 1244 (1999), by the Special Representative of the Secretary-General.

1.5 Future political settlement for Kosovo and Metohija must take full account of the sovereignty and territorial integrity of Yugoslavia, as provided by resolution 1244 (1999). Therefore, the reference to "the will of the people" in the preamble to the Constitutional Framework has to be interpreted without prejudice to the respect for the principle of sovereignty and territorial integrity. Furthermore, any such reference should be understood as to include the will of all citizens of Serbia and Yugoslavia, expressed directly or through their elected representatives.

2. The Constitutional Framework does not contain sufficient institutional guarantees for the protection of rights and interests of national communities in Kosovo and Metohija. This is a matter of serious concern, particularly having in mind the present precarious position of members of non-Albanian communities in Kosovo and Metohija. The Federal Republic of Yugoslavia expects that the Special Representative of the Secretary-General will carefully scrutinize work of provisional institutions of self-government and forcefully use authority "to intervene as necessary in the exercise of self-government for the purpose of protecting rights of Communities and their members" (article 4.6 of the Constitutional Framework).

3. It is premature to transfer responsibilities in the field of judicial affairs to provisional institutions of self-government, as provided in article 5.3 of the Constitutional Framework. Unfortunately, conditions for the functioning of a truly independent and impartial judiciary still do not exist in Kosovo and Metohija, and therefore judicial affairs as such should have remained within the reserved powers of the Special Representative of the Secretary-General.

4. Any reference to the Kosovo Protection Corps in the Constitutional Framework is unacceptable. It is alarming that the process of demilitarization of the "KLA", as required by paragraph 9 (b) of resolution 1244 (1999), has not been fully

accomplished. Recent terrorist acts in Kosovo and Metohija have been a grim reminder of the pressing need for an immediate and full completion of this process.

With regard to the holding of general elections in Kosovo and Metohija, announced for 17 November 2001, the Federal Republic of Yugoslavia would like to emphasize that it supports the elections in principle, provided that necessary conditions for the holding of truly all-inclusive, free and fair elections exist well before the election date. It is particularly important to create a safe and secure environment and freedom of movement for all in Kosovo and Metohija, ensure the process of return of refugees and displaced persons and determine the fate of kidnapped and missing persons. Truly democratic elections can only be held in a free, open and safe environment for all in Kosovo and Metohija, including members of all national communities.

The Federal Republic of Yugoslavia welcomes the commitment of the Special Representative of the Secretary-General to facilitating the safe return of refugees and displaced persons to their homes and their exercise of the right to recover their property and possessions, as well as the commitment to creating conditions for freedom of movement for all persons, as declared in the Preamble of the Constitutional Framework. It is of utmost importance that the Special Representative ensures that this commitment is implemented in full and without delay.

At the same time, the Federal Republic of Yugoslavia expects the Security Council to ensure, in accordance with the Council's principal responsibility for the implementation of resolution 1244 (1999), that all its provisions are fully respected.

I should be grateful if this letter would be circulated as a document of the Security Council.

(*Signed*) Dejan **Sahovic**
Ambassador
Permanent Representative

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Note by the President of the Security Council

1. Pursuant to paragraph 4 (b) of the note by the President of the Security Council dated 30 October 1998 (S/1998/1016) and following consultations among the members of the Council, the members of the Council agreed to elect the chairman and vice-chairmen of the following sanctions committee for a period running until 31 December 2001:

Security Council Committee established pursuant to resolution 751 (1992) concerning Somalia

Chairman: His Excellency Mr. Noureddine Mejdoub (Tunisia)

Vice-Chairmen: Jamaica and Norway

2. The bureau of the above-mentioned sanctions committee will be composed as above for a term ending on 31 December 2001.

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Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo

I. Introduction

1. The present report is submitted pursuant to Security Council resolution 1244 (1999) of 10 June 1999, by which the Council decided to establish the United Nations Interim Administration Mission in Kosovo (UNMIK) for an initial period of twelve months. In paragraph 20 of that resolution, the Council requested me to report at regular intervals on the implementation of the mandate of UNMIK. The current report covers the activities of UNMIK and developments in Kosovo, Federal Republic of Yugoslavia, since my report of 13 March 2001 (S/2001/218).

2. The activities of UNMIK from March through May 2001 were characterized by the laying of solid foundations for the interim period of self-government envisaged in Security Council resolution 1244 (1999). The main achievement in this respect was the promulgation of the Constitutional Framework for Provisional Self-Government, paving the way for Kosovo-wide elections, which will be held on 17 November 2001. The conclusion of the Constitutional Framework has also accelerated the transfer of public administration responsibilities to local control, bringing new momentum to the capacity-building efforts of UNMIK and the creation of a legitimate revenue-generating market economy in the crucial prelude to the transfer of authority at the central level. With Kosovo-wide elections in sight, there is now also increased focus on the serious challenge of engaging all communities in the transitional administration process. Underpinning UNMIK initiatives to facilitate the transition to substantial autonomy for all of Kosovo's inhabitants are the continuing efforts to address a number of serious challenges to security and ongoing measures to bolster law and order, including important initiatives to combat terrorism and organized crime. The UNMIK strategy of pursuing the political and security tracks in parallel during this period, together with steady progress in the objectives that my Special Representative elucidated on taking office in January 2001, have laid a promising foundation for the partial transfer of authority later in the year.

II. Overview

A. Political situation

3. The conclusion of the Constitutional Framework for Provisional Self-Government and the announcement of the election date heralded the unofficial beginning of the election campaign. Focusing the attention of the parties on Kosovo-wide elections will help to reinvigorate the political situation. This reinvigoration has already been seen in the differing reactions of the parties to the Constitutional Framework, despite the common views expressed on many of the issues discussed in the Joint Working Group (JWG), as the political parties begin to position themselves for the upcoming elections. The Democratic League of Kosovo (LDK) and the Alliance for the Future of Kosovo (AAK) expressed support for the document, while maintaining their additional demands for a referendum, a Constitutional Court and the title of "Interim Constitution". The late shift of AAK in favour of the document constituted a potentially significant change in the political balance of power, contrasting as it did with the lack of support for the document by the Democratic Party of Kosovo

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(PDK). The fact that PDK stated its intention to participate in the elections, however, calls into question the real depth of the party's opposition to the nature of the provisional institutions set out in the Constitutional Framework for Provisional Self-Government.

4. In the run-up to Kosovo-wide elections, the Interim Administrative Council (IAC) and the Kosovo Transitional Council (KTC) remain important mechanisms through which my Special Representative can coordinate directly with the Kosovo leadership on the issues of greatest importance. The inclusion of AAK in IAC and its additional representation in KTC has broadened the basis of IAC, in accordance with the results of the municipal elections held in October 2000. An important development in furthering democratic understanding for both IAC and KTC during the reporting period has been their visits to international organizations outside Kosovo, namely the North Atlantic Council in Brussels on 25 April (joint IAC and KTC delegation) and the Permanent Council of the Organization for Security and Cooperation in Europe in Vienna on 30 May (IAC). Another essential element to the furtherance of the democratic process is the involvement of all Kosovo communities in the interim institutions. My Special Representative will continue to examine how best to include all Kosovo communities in KTC, following the successful completion of the representation of the Kosovo Turkish community with the appointment of a representative of the Turkish Democratic Union (TDU), as well as the inclusion of a representative of the Egyptian community.

5. The political engagement of the Kosovo Serb community remains a major challenge for UNMIK, rendered more difficult by the branding of the Constitutional Framework as "unacceptable" by the authorities of the Federal Republic of Yugoslavia and the continuing divisions within the Kosovo Serb community itself. Although the Serb National Council-Gracanica (SNC-G) continues to participate in the institutions of the Joint Interim Administrative Structure (JIAS), albeit intermittently for a while during the consultations on the Constitutional Framework, its influence continued to diminish, as did that of the Serb National Council-Mitrovica. In the Mitrovica region, the self-styled "Political Committee for the Defence of Kosovska Mitrovica", formed in February 2001, has gained influence, with radical Kosovo Serb leaders seizing on the issue of UNMIK tax collection points along the northern administrative boundary line to further harden the stance of the Kosovo Serb community in the region. The ensuing roadblocks and the linkage made between the tax collection points and the Constitutional Framework rendered progress on the two issues of progress in the divided city of Mitrovica and Kosovo Serb cooperation with UNMIK very difficult. In the face of these difficulties, UNMIK has made consistent efforts to both re-engage Kosovo Serb leaders in the Mitrovica region and encourage the Government of the Federal Republic of Yugoslavia to use its influence, which remains key to the cooperation of the Kosovo Serb community in the UNMIK-led process. To this end, I met with President Kostunica of the Federal Republic of Yugoslavia in New York on 8 May. There have been some recent positive indications, including encouragement by the authorities of the Federal Republic of Yugoslavia of Kosovo Serb participation in civil registration and an agreement on tax collection points.

B. Security situation

6. Continuing instances of ethnically and politically motivated violence, regarding which briefings have been given to the Council, as well as organized crime, remain a great concern of my Special Representative and pose a tangible threat to the fulfilment of the UNMIK mandate. Over the past three months, there has been a general increase in tensions in the Mitrovica, Gnjilane and Pristina regions, as well as specifically targeted attacks on individuals. These tensions have resulted in both loss of life and a severe limitation on freedom of movement, particularly for the Kosovo Serb community as a result of the temporary suspension of bus lines operated by the Office of the United Nations High Commissioner for Refugees (UNHCR) and the interruption of train services. The most disturbing and extreme individual act of violence was the bomb attack in the centre of Pristina on 18 April, which killed the head of the passport office of the Federal Republic of Yugoslavia Committee on Kosovo and injured four others. An investigation by UNMIK Police and the Kosovo Force (KFOR) led to the swift arrest of one suspect two days after the bombing. Kosovo Albanian leaders were swift to condemn this terrorist attack, reflecting a relatively recent readiness on their part to condemn terrorist acts of this nature.

7. Over the past three months, there has been a shift in criminal patterns in Kosovo, with a disturbing increase in violence against the international community. While the overall level of crime remains uneven (with 89 incidents in March and 114 in April), the number of incidents against the international community has risen and now accounts for 1.5 per cent of major crime statistics. In addition, a trend of openly aggressive behaviour towards law enforcement and security personnel has become more commonplace. This has resulted in assaults and threats against members of the Kosovo Police Service (KPS), UNMIK police and KFOR, including the fatal shooting of a Russian KFOR soldier in the Kamenica area on 11 April. (See also annex I for a summary of crime statistics in Kosovo.)

8. The Mitrovica region continued to be a focal point for violence and civil disobedience within the Kosovo Serb community over the reporting period. After UNMIK police arrested three Kosovo Serbs on 14 March, a crowd gathered outside the police station demanding the release of the detainees. The level of violence escalated, resulting in the injury of 21 UNMIK police officers and damage to seven police vehicles and several houses. As a consequence of the incidents, UNMIK police temporarily suspended patrols in northern Mitrovica, resuming them in early May with KFOR assistance. The series of incidents seemed to be an orchestrated effort to drive the UNMIK presence from northern Mitrovica. Intensive efforts to defuse the situation on the part of both UNMIK and KFOR were further complicated by continued rivalry among the Kosovo Serb leaders. The blockades of critical road junctions in the largely Kosovo Serb-controlled northern municipalities of Leposavic, Zubin Potok, Zvecan and north Mitrovica from mid-April through early May, in protest of the establishment of UNMIK tax collection points at the boundary, further exacerbated the situation in the region and had a considerable impact on the ability of UNMIK to function in the area. Further associated problems included the closure of the Mitrovica District Court and Detention Centre, which affected the whole of Kosovo as the detention facility holds not only the detainees awaiting trial in Mitrovica's courts, but also detainees from other parts of Kosovo. UNMIK distribution of Serbian newspapers to Kosovo Serbs was suspended and economic activity inevitably slowed. The road blockades were dismantled on 19 May.

C. Impact on Kosovo of the situation in southern Serbia and the former Yugoslav Republic of Macedonia

9. The situation in both the Presevo Valley and the former Yugoslav Republic of Macedonia continued to have a destabilizing influence in Kosovo. The main priority of my Special Representative has been to minimize these effects within Kosovo. To this end, UNMIK and KFOR have continued to work jointly to enhance measures to reduce the volatility of the regional situation. KFOR has maintained its vigilance in both the ground safety zone (GSZ) and at the borders with the former Yugoslav Republic of Macedonia, detaining suspected members of Ethnic Albanian Armed Groups (EAAG) and actively searching for weapons. Ethnic Albanians have subsequently been arrested for attempting to smuggle landmines, weapons and ammunition as well as uniforms and other military equipment from Kosovo to the GSZ. The most significant weapons seizure was of a truckload of weapons in Pec destined for the GSZ on 11 May. An initiative of particular importance to reduce the influence of EAAG activity from Kosovo was the promulgation by my Special Representative on 24 May of Regulation 2001/10 on the Prohibition of Unauthorized Border/Boundary Crossings. This regulation makes it a criminal offence to cross at locations other than a border or boundary crossing that has been authorized by my Special Representative. As of 4 June 2001, when the Regulation entered into force, the criminal offence of crossing at an unauthorized location (except for bona fide refugees or internally displaced persons) is subject to a minimum fine of 500 DM or 30 days' imprisonment. Where aggravating factors are present, the penalties may be increased to a fine of 5,000 deutsche mark (DM) or imprisonment of up to one year.

10. A further effort to minimize the effect on Kosovo of the instability in the region has been the continuing close cooperation of UNMIK with neighbouring States. Within this context, my Special Representative met with Albanian President Meidani, Prime Minister Meta and Foreign Minister Milo in Tirana on 15 and 16 April and again on 16 May, as well as with the authorities of the former Yugoslav Republic of Macedonia on 7 May. These meetings have proved useful conduits for messages of moderation, cooperation and tolerance from both authorities through my Special Representative to the Kosovo Albanian leadership.

They have also provided an opportunity for the Albanian leaders to distance themselves from both ethnic Albanian extremism and the notion of a "Greater Albania." At the same time, continued encouragement by UNMIK of the Kosovo Albanian leadership to issue public statements distancing themselves from the extremists has met with relative success, with the main leaders beginning to understand that the international community is outraged by such violence.

11. The outbreak of inter-ethnic violence in the former Yugoslav Republic of Macedonia and the resulting month-long closure of the border with Kosovo, which ended on 3 April, had an adverse effect on both the political and security situation in Kosovo and the ability of UNMIK to carry out its mission by severely limiting freedom of movement and delivery of essential supplies. During the period when the border was closed, my Special Representative met separately in Skopje with the European Union's High Representative for Common Foreign and Security Policy, Javier Solana, North Atlantic Treaty Organization Supreme Allied Commander/Europe, General Ralston, former Yugoslav Republic of Macedonia President Boris Trajkovski, Prime Minister Ljubco Georgievski and Minister for Foreign Affairs Srgjan Kerim to express concern over the impact of the border closure. Another casualty of the closure was the Kosovo consolidated budget, which lost an estimated deutsche marks 9 to 10 million in customs revenue during this period. In addition, the higher costs of transport due to longer journeys to unaffected points of entry into Kosovo raised prices and negatively affected the overall Kosovo economy.

12. The main concern of UNMIK regarding the situation in southern Serbia has been the phased re-entry into the GSZ of the joint Yugoslav forces, particularly the last phased return into sector B, which began on 24 May. This concern notwithstanding, the careful preparation of all phased redeployments, including the consideration of KFOR observation of the activities of the so-called Liberation Army of Presevo, Medvedja and Bujanovac (UCPMB) and ethnic Albanian clashes with Federal Republic of Yugoslavia security forces, together with the offer of amnesty by KFOR to UCPMB fighters (of which 523 availed themselves), has resulted in a smooth redeployment so far. Programmes for the social rehabilitation of former UCPMB fighters are under consideration to avoid further activity should they remain unemployed. KFOR is also increasing its efforts at the border with the former Yugoslav Republic of Macedonia to reduce the possibility of former UCPMB members becoming engaged in that conflict. Considerations for the redeployment also took into account the potential humanitarian consequences and the security-related impact that a flow of ethnic Albanian internally displaced persons into Kosovo might have on the ethnic balance, particularly in the Gnjilane region, which has already absorbed thousands of ethnic Albanian refugees from the former Yugoslav Republic of Macedonia. As of 30 May, the number of arrivals from the Presevo Valley was 8,198. UNHCR has also reported, however, that, as of the same date, approximately 1,390 people had reportedly returned from Kosovo to the Presevo Valley.

D. Humanitarian situation

13. In addition to over 8,000 internally displaced persons from Southern Serbia in May 2001, the work of humanitarian agencies in Kosovo has been further challenged by the influx of an estimated 19,000 refugees from the former Yugoslav Republic of Macedonia. More than 9,000 were forced to flee as a result of the recent intensification of violence in May 2001. Although the majority have not requested assistance and have found accommodation through host families, UNHCR has coordinated contingency plans for receiving an influx from both areas. The regions of Prizren and Gnjilane have borne the brunt of the new arrivals. In these areas, UNMIK has assisted UNHCR with the registration and placement of refugees, the establishment of emergency response coordination committees, transportation and the identification of additional shelter capacities. A range of non-governmental organizations mobilized to meet the emergency needs of the incoming refugees and internally displaced persons.

14. Following the moratorium on returns during the winter period, the number of returnees has increased since March. The International Organization for Migration assisted in the voluntary return of 2,759 Kosovo Albanians between 1 January and 30 April. During this period there were 2,300 forced returns, including 778 during the month of April, according to UNMIK border police. This is the third consecutive monthly increase in the number of forced returns, with approximately 30 per cent more people being returned

in April 2001 than in March. The vast majority of forced returns continue to come from Germany (59 per cent), Switzerland (24 per cent), and, increasingly, the United Kingdom (7 per cent).

15. While attention continues to be paid to ongoing humanitarian needs, the focus of the international community in Kosovo has increasingly shifted towards reconstruction and development. An illustration of the development side is the completed transfer of responsibility for winter contingency planning from international agencies to municipalities. In order to identify and fill gaps in the shift from humanitarian assistance to development, the Office for the Coordination of Humanitarian Affairs, in close collaboration with United Nations agencies, UNMIK and the non-governmental organization community, is finalizing a review of the transition process. To date, a number of important lessons have emerged regarding the long-term engagement of beneficiaries; the incorporation of exit strategies leading to project sustainability; an early focus on capacity-building; and the need to address gender issues in line with United Nations objectives and frameworks. In the latter regard, the UNMIK Office of Gender Affairs, in cooperation with the United Nations Development Fund for Women (UNIFEM) and the United Nations Development Programme (UNDP), has formulated the Kosovo Action Plan for the Advancement of Women for 2001-2003, recently endorsed by my Special Representative, which identifies the following six priority areas for Kosovo women: education, science and culture; health care; violence against women; legislation and women's rights; gender mainstreaming and monitoring of the Plan's implementation.

E. Situation of Kosovo's minority communities

16. The situation of Kosovo's non-Albanian communities, including the continued lack of adequate security and conditions conducive to return, remains a major concern for UNMIK. The communities, particularly the Kosovo Serbs, continue to suffer disproportionately from major crimes (accounting for over 20 per cent of the victims of major crimes) and ethnically motivated acts of intimidation, such as arson. This situation continues to erode the confidence of minority communities and to undermine my Special Representative's efforts to include all of Kosovo's inhabitants in both the current administrative structures and the future self-government. There has been some progress, however, on the incorporation of Kosovo minority communities at the municipal level: most Kosovo Turks, Roma, Ashkali, Egyptians and Bosniacs who have been appointed by my Special Representative in conformity with Regulation 2000/45 on the Self-Government of Municipalities have now taken up their reserved seats in the municipal assemblies and have been generally accepted by their Kosovo Albanian colleagues. The participation of Kosovo Serbs, however, has been at best uneven. Some progress has been made in incorporating Kosovo Serb representatives in Orahovac (Prizren region), Srbica (Mitrovica region), Novo Brdo, Vitina, Gnjilane, and Kamenica (all in Gnjilane region), and in Pec. In others, and particularly in the Pristina region, their participation remains undecided, as it does in both Mitrovica and Strpce (Gnjilane region), which are special cases with large Kosovo Serb populations (a majority in Strpce).

17. One of the particular challenges UNMIK faces as it moves towards Kosovo-wide elections is the engagement of the Kosovo Serb community. The efforts of UNMIK to promote inter-ethnic cooperation and to convince the Kosovo Serbs that they will derive tangible benefits from cooperating with UNMIK continue to be undermined by extreme acts of ethnically motivated violence. Central to the engagement of the Kosovo Serbs is the question of return. UNMIK considers the return of Kosovo Serbs to be critically important, but has repeatedly underlined that returns should take place in a secure environment. Largely as a result of the security situation, the number of returns remains minimal, and indeed in some areas more Kosovo Serbs are leaving Kosovo than returning. There has been some progress, however, over the past few months, including intensified work on the Framework for Return of Kosovo Serbs. I note with pleasure that all relevant leaders in Kosovo support the principle of return of displaced members of all communities. Following the presentation of the Framework for Return of Kosovo Serbs endorsed by the Joint Committee on Returns (JCR) in January 2001, a number of sites have been identified where organized returns of Kosovo Serbs to their communities can best take place when conditions are fulfilled. In order to provide guidance on the returns process, my Special Representative chaired a high-level session of the JCR on 11 May, with the participation of UNMIK, UNHCR,

KFOR and Kosovo Serb leaders Bishop Artemije (SNC-G) and Momcilo Trajkovic, Head of the Federal Republic of Yugoslavia Government Committee on Kosovo. The Kosovo Serb JCR members called on the international members of the JCR to renew their efforts and ensure that progress is made in this area. In order to further expedite the process, my Special Representative has sought the inclusion of the Kosovo Albanians in the process. To this end, the Framework was discussed in IAC on 29 May, during which PDK leader, Hashim Thaci, raised the possibility of Kosovo Albanian involvement in JCR and a campaign by Kosovo Albanian leaders to gain public acceptance of returns.

18. In order to coordinate the Mission's approach towards engaging the Kosovo Serb community, several other priority initiatives are being pursued in parallel to address the day-to-day concerns of Kosovo Serbs. These include the allocation of revenues from taxes collected in Kosovo to minority communities through the community committees at the municipal level; the implementation of employment-generating projects in these communities; improved public services and utilities; the integration of the 24 local community offices as part of the local administration structure to ensure equal access to public services; and provision of more educational and health facilities as well as social welfare benefits. In addition, the institution-building pillar (led by OSCE) has established the Small Investment Minorities Fund, which is a confidence-building measure for particularly vulnerable minority groups focusing on income-generating projects, or those related to health, education and culture. Kosovo Serbs have repeatedly expressed concern at the trend towards sales of private and commercial properties to Kosovo Albanians, which often take place under duress. UNMIK is assessing the viability and effectiveness of possible legal and administrative measures aimed at addressing the issue of inter-ethnic property sale, bearing in mind that it is primarily security and economic considerations that drive Kosovo Serbs to sell their property and leave Kosovo.

19. One of the most successful ways the Mission has been promoting multi-ethnic capacity-building is through the KPS, where 15 per cent of the cadets are from minority communities. In addition to KPS, Kosovo Albanians and Kosovo Serbs have been working together in the fire and rescue services and in demining activities. A further glimmer of progress was the induction at the end of April of the first two Kosovo Serbs, alongside two Kosovo Turks into the Kosovo Protection Corps (KPC), which continues to reserve 10 per cent of its membership for minority communities.

III. UNMIK activities

A. The Constitutional Framework for Provisional Self-Government

20. A major part of the Mission's focus over the reporting period has been directed towards completing the work on the Constitutional Framework for Provisional Self-Government. Throughout this process, my Special Representative's foremost priorities have been to protect the rights and interests of all communities and the sovereignty and territorial integrity of the Federal Republic of Yugoslavia. In accordance with Security Council resolution 1244 (1999), the Constitutional Framework does not in any way prejudge a final political settlement for Kosovo. Rather, it provides the people of Kosovo with the opportunity to administer their daily lives in a way that should encourage the moderates to further the political process and marginalize extremism. Crucial areas of responsibility will remain under the direct authority of my Special Representative, including law enforcement, external relations, community rights protection and ultimate budgetary control.

21. The Joint Working Group (JWG), formally constituted on 6 March 2001, spent nine weeks elaborating the Constitutional Framework. Specifically designed to ensure an inclusive approach, the JWG is composed of representatives of the three major Kosovo Albanian political parties, a Kosovo Serb member (who withdrew following the initial session and was replaced on 13 April by another representative of the Kosovo Serb community), a Bosniac who represented Kosovo's other minority communities, a representative of civil society and an independent expert, as well as seven international members, including an international chairman. In order to ensure the inclusion of views from Kosovo's other communities not formally represented in the JWG, UNMIK devised a special consultation mechanism whereby members of these communities had the opportunity to channel their views and written comments to the JWG through the Kosovo Bosniac member.

22. During the last two weeks of negotiations, intensive discussions were conducted at the political level in order to reach an agreement on outstanding issues. Local political leaders were able to review and debate the document, including Kosovo Serb and Kosovo Turkish amendments, in both IAC and KTC, as well as individually with my Special Representative. Throughout the political consultations, my Special Representative did his utmost to secure consensus and reconcile often contradictory positions. Despite intensive efforts to bridge the remaining gaps on five outstanding issues, my Special Representative noted that the courage to compromise was missing. These issues were: (a) the title of the document; (b) the request for a directly elected President; (c) a Constitutional Court; (d) a referendum and (e) a "sunset clause" spelling out the time period of provisional self-government. In the end, my Special Representative, in consultation with me, struck an appropriate balance. The final document represents the collaborative effort of UNMIK, the JWG, the Kosovo political leaders, international experts and the international community. It reflects the large measure of agreement reached in the JWG, including comprehensive provisions on the structure and powers of the legislature, the judiciary and the executive branch. On 16 May, my Special Representative signed into law Regulation 2001/9 on the Constitutional Framework for Provisional Self-Government in the presence of Kosovo Albanian members of IAC. On 18 May, my Special Representative established the Steering Group on Issues of Implementation of the Constitutional Framework. The Group's task is to coordinate the efforts of five working groups, which deal with relevant aspects of implementation of the Constitutional Framework.

23. The Constitutional Framework provides for a 120-seat Assembly based on proportional representation, with the first 100 seats going to all registered parties in Kosovo, 10 seats reserved for the Kosovo Serbs, and 10 more earmarked for other communities. A seven-member Presidency of the Assembly will guide its work. The Assembly will elect a President, who will in turn nominate a Prime Minister. The Framework contains, as a key element, extensive safeguards for the protection of communities and human rights. Specific provisions in this regard include: an extensive list of guaranteed rights of communities and their members in areas including language, education, employment, media and public services, together with a reservation to my Special Representative of the power to intervene to protect these rights; strong human rights provisions, including a provision that all refugees and displaced persons have the right to return to their homes in Kosovo and to recover their property, and a requirement that competent institutions must facilitate returns; the creation of a Committee on the Rights and Interests of Communities in the Assembly with guaranteed and equal representation of communities and special rights to review proposed legislation in order to ensure that the rights and interests of communities are adequately addressed and which will enable strict monitoring of the legislative process by my Special Representative prior to promulgation by my Special Representative; guaranteed set-aside seats for Kosovo Serbs and other communities in the Assembly to ensure adequate representation, as well as guaranteed representation of all communities in the Presidency of the Assembly and other bodies, including main and functional committees; full control and authority by my Special Representative over the judiciary, including the power to determine the assignment of international judges and prosecutors to cases in order to ensure the fair administration of justice, particularly in sensitive cases involving communities; and broad authority for my Special Representative to intervene and correct any actions of the provisional institutions of self-government that are inconsistent with Security Council resolution 1244 (1999), including the power to veto Assembly legislation, where necessary.

24. In the final stages of negotiations, UNMIK further introduced additional mechanisms to address the concerns reflected by the Kosovo Serb representative. These include: a procedure enabling community members of the Assembly to object to legislation they feel violates their "vital interests" and initiate a special process to avoid legislation being adopted without passing scrutiny by a panel where a representative of my Special Representative and a community representative will have a majority; a requirement that the Ombudsperson give priority to allegations of discrimination against communities and their members and allegations of violations of community rights; preambular language reaffirming the commitment to the safe return of refugees and displaced persons and to freedom of movement; and preambular language stressing the importance of a free, safe and open political environment for members of the communities.

25. Key to the success of the Constitutional Framework is local acceptance of the document in order to secure local ownership of the process of provisional self-government. Reactions to the signing of the Constitutional Framework among Kosovo Albanian members of IAC were mainly encouraging. LDK and AAK leaders, Ibrahim Rugova and Ramush Haradinaj respectively, expressed their support for the document as a "fair compromise", despite the exclusion of certain key requests, which they said they would continue to pursue. PDK President, Hashim Thaci, was more critical, saying: "this document will hold hostage the aim of the people of Kosovo, which is political independence". At the same time, the local media reported extensively on the stance by the authorities of the Federal Republic of Yugoslavia and the Kosovo Serbs that the Framework was "unacceptable". UNMIK made efforts to keep the people of Kosovo informed throughout the process. My Special Representative launched a media campaign, which included briefing the editors of the Kosovo press on the background and the document itself. On 14 May, my Special Representative also appeared on local television to announce the Constitutional Framework as well as the election date of 17 November 2001. In order to further contribute to local understanding of the Constitutional Framework, my Special Representative intends to distribute an explanatory leaflet to every household in Kosovo.

B. Preparations for Kosovo-wide elections

26. The Constitutional Framework defines the following basic elements of the election system: single constituency (that is, Kosovo constitutes one electoral unit, as opposed to multiple districts); proportional representation; ballot listing parties only (closed lists); and a cut-off date for voter eligibility of 1 January 1998 (that is, the same date as for the 2000 municipal elections). With the basic electoral provisions agreed upon and a date of 17 November set for the elections, the election process has been set in motion. The institution-building pillar, which is in charge of elections, has begun electoral preparations by establishing a planning task force, which has elaborated a detailed operational plan covering registration and elections. For the 2000 municipal elections, the United Nations and OSCE worked together in the Joint Registration Task Force to register 900,000 voters. For 2001, OSCE, in charge of voter services, will work in parallel with the United Nations, which is responsible for civil registration. Voter registration is scheduled to start on 30 July for a period of six weeks. It is anticipated that as many as 300,000 additional voters may have to be registered.

27. A key element of the preparations for Kosovo-wide elections are the efforts to ensure the participation of all communities. In a television address, my Special Representative has stressed that "participation in the coming elections is in the interest of all communities ... If communities do not participate, they will marginalize themselves. They will find themselves outside the process and have no say in their future." Progress has already been made in this regard, with an agreement on the part of the Kosovo Turkish community, the majority of which did not participate in the municipal elections, to register and take part in the 2001 Kosovo-wide elections. Subsequently, registration of the Kosovo Turkish community reopened in Prizren on 15 May. To facilitate the registration of sometimes remote communities, or those suffering from lack of freedom of movement, the institution-building pillar will use mobile registration teams, which will go directly to the communities. Proposals are also being prepared by the Department of Public Services to open a satellite office for civil registration data entry for Kosovo Serbs in Gracanica (Pristina region), which should, additionally, provide an opportunity to employ some qualified personnel from Kosovo minority communities.

28. In an effort to encourage the Kosovo Serbs to register, meetings have been held at the highest political level, both in Belgrade and with the Kosovo Serb community, to convey the message that participation is a prerequisite for Kosovo Serbs to protect and promote their interests and co-determine the course of events in Kosovo. In order to alleviate the pressure on the Kosovo Serb community to decide on participation in elections now, the institution-building pillar has continued to decouple registration from participation in the elections. This allows the Kosovo Serb community more time to decide on voting, while providing them with the legal means to do so should they decide to participate in the elections at a later date. In this regard, UNMIK has welcomed the recent statement by President Kostunica, encouraging participation by the Kosovo Serbs in the registration process. UNMIK believes this is very important for Kosovo Serbs living outside Kosovo, as it sends a

strong signal that the Mission sees the ability to return as a future goal. Plans are being elaborated for registering Kosovo Serbs currently living within or outside Kosovo. Out-of-Kosovo registration and election operation will be one of the most complicated parts of the election process. To this end, the institution-building pillar has signed a preliminary memorandum of understanding with the International Organization for Migration for carrying out the out-of-Kosovo registration and voter services. Relations with the Federal Republic of Yugoslavia will be especially important for these operations, as the Serbian Commissariat for Refugee Affairs would handle about 70 per cent of the workload.

29. The legal provisions to ensure a quality election are currently being implemented. On 9 March, my Special Representative reconstituted the membership of the Central Election Commission (CEC), which had been disbanded at the end of December 2000. Nine local and three international experts were appointed to the CEC, which is chaired by the Deputy Special Representative of the Secretary-General for institution-building. The seat for a Kosovo Serb continues to be temporarily vacant. In accordance with UNMIK Regulation 2000/65, the role of the newly composed CEC is to establish and ensure the implementation of the electoral rules and regulations for the Kosovo-wide elections. To date, the CEC has adopted a code of conduct, electoral rules on the Election Complaints and Appeals Sub-commission and the certification of political entities.

C. Developments relating to the Joint Interim Administrative Structure

30. The JIAS departments are the backbone of the provisional administration at the central level and will be the focus of UNMIK attention as it prepares the transition to provisional self-government. UNMIK has worked to restructure the JIAS departments to resist politicization during the transition while providing administrative policy guidance and services for the population. One of the primary elements is the principle of "technical" capacity, supported by a professional, multi-ethnic and integrated Kosovo civil service at all levels. Some departments are more advanced than others in developing the capacity to be sustainable institutions. During the next 6-12 months (depending on the department), including the period after Kosovo-wide elections, the civil administration pillar will continue to ensure, as the handover to the institutions of provisional self-government takes place, that these institutions and the Kosovo civil servants will continue to provide the necessary administration for the people of Kosovo. Serious capacity questions at the administrative party level are being addressed to facilitate progress towards substantive, sustainable self-governance. A further priority are the efforts to ensure as multi-ethnic an administration as possible. To this end, a basic public services law is under review and the inception phase of a donor-funded project to develop a legal and policy framework for an efficient, impartial and multi-ethnic civil service has been completed. Difficulties persist in the recruitment of minority staff, with few minority candidates applying for jobs and those that do being unable to travel to work owing to the security situation.

31. Noteworthy improvements continue to be made in the delivery of public services provided through the JIAS departments, a pattern that must continue and be accelerated in the run-up to the transfer of administrative responsibility in many areas at the central level. An UNMIK regulation on the labour law is being prepared, covering: the basic principles and rights at work, according to International Labour Organization labour standards; essential regulations on the employment relationship and its establishment and termination and on terms of employment; and reinforcement mechanism and sanctions. This draft regulation is based upon Recommendation No. 1/2001 of the Department of Labour and Employment, issued in March 2001. Both these legal documents draw upon a comprehensive draft labour law prepared with the involvement of local trade unions, employers, local and international experts, including those of ILO.

32. The Department of Public Services has so far overseen the production of 500,000 identification cards, of which over 300,000 have been distributed through the postal network. The card will be a key element for identification of voters during elections and all voters will receive them well before the election date. Over 30,000 travel documents have also been produced for issue to habitual residents of Kosovo. To date, 23 countries, including all Schengen States, the United States, Switzerland, Albania and the former Yugoslav Republic of Macedonia have recognized the UNMIK travel document. The Department of Environmental Affairs has overseen the drafting of a

regulation on the environmental impact of development projects, which establishes the framework for ensuring that economic development does not bring with it significant further deterioration of Kosovo's environment. The regulation applies only to new projects, but a broader, more comprehensive regulation on environmental standards is also under development.

33. A key task in the development of a free market system is the creation of a mechanism to protect the concept of private property. By May 2001, the Housing and Property Directorate had registered nearly 2,200 claims. Meanwhile, offices have been opened in Pristina, Gnjilane, Mitrovica and Pec. In addition, mobile teams collect claims in minority areas throughout Kosovo and representation at the UNMIK Office in Belgrade is being considered. Nearly 500 cases of illegal occupations are being investigated and the first eviction orders have been issued. The process of restoring the cadastral information system in Kosovo continues to make good progress. An administrative instruction on fees and charges levied for products and services by the Kosovo Cadastral Agency has been issued and the Kosovo cadastre interim database has been established. Training courses have also been conducted for local staff in the municipal cadastral offices.

34. There have been several developments in the area of transportation. In April, Pristina Airport introduced its summer flight schedule with six new destinations (the airport currently handles about 45,000 passengers per month). In order to sustain this activity, three large contracts are being finalized for the construction of a cargo terminal and apron, enlargement of the passenger terminal and construction of a 600-car parking lot. The accelerated growth of civilian air activities has prompted a review of the legal and institutional structures at the airport as laid out in the Military Technical Agreement in consultation with the International Civil Aviation Organization. In other transportation infrastructure matters, contracts for road maintenance under the urgent roads project have just been finalized and, wherever possible, work is being done by local firms. Several pilot projects are also under consideration and will soon be tested that try to identify multi-ethnic solutions to the problems of lack of transport for minorities. Contracts have been awarded to Kosovo Albanian-owned bus companies to operate services linking Kosovo Serb areas while employing Kosovo Serbs.

D. Transfer of municipal public administration responsibilities

35. An essential first step to holding Kosovo-wide elections is the completion of the implementation of the results of the October 2000 municipal elections and the accelerated transfer of competencies to the municipal level in line with Regulation 2000/45 on the Self-Government of Municipalities. Considerable progress has been made in several areas. The phased handover of primary health care responsibility to the municipalities continues in a planned and systematic manner, including the identification of key training needs for local staff. International staff are gradually being replaced by Kosovo staff and are increasingly assuming the role of advisors and facilitators rather than managers. As of 1 May, UNMIK regional health offices have been designated as district health authorities and are reporting directly to the Department of Health. A service agreement covering the rights and obligations of the Department of Health and the municipalities is being finalized and a handover kit has been prepared to help the municipalities assume this responsibility. The Department of Education and Science has launched important reforms. The process of decentralization has also started in the Department of Education and Science for pre-primary, primary and secondary education and education administrators have started work in the municipalities. Formal agreements have further been made between the Department of Local Administration and the following departments/sectors: Department of Civil Security and Emergency Preparedness, for administrative and coordinating functions for emergency prevention and response planning; Department of Culture, regarding the allocation of staff; Department of Agriculture; and Department of Public Services regarding civil registration.

36. Although structurally the municipal assemblies have been established, the ability of the elected representatives and members of the municipal boards to now engage in substantive policy issues continues to be a major challenge. Coherent planning at the municipal level remains hampered by a general lack of ability on the part of all political parties to organize their activities and engage in a constructive manner. In many municipalities, the party with the largest number of votes has adopted a "winner take all" approach, using assembly majorities to secure the positions of President and Deputy President. Relations between the

LDK and PDK remain polarized, with both adopting a non-cooperative approach to municipal governance. A further obstacle remains the continued politicization of the municipal administration. Although UNMIK has consistently identified professional skills as the most important criterion for selection, the reality is that local political parties continue to view positions on administrative boards as political rather than administrative. The UNMIK goal of a pluralistic multi-ethnic civil service is also hampered by the lack of freedom of movement in many localities and threats and intimidation at the workplace.

37. The obstacles to effective municipal self-government further underline that civil service training and capacity-building is key to the future functioning of self-government, both at the municipal and central levels. The institution-building pillar continues to give priority to this crucial area. By March, OSCE had completed its training of over 600 municipal assembly members through the post-election municipal assembly seminars. The OSCE-sponsored Institute for Civil Administration continued to train senior and mid-level civil servants from municipal administrations and administrative units. The Institute provided computer courses, and launched its medium-term courses covering topics essential for modern public managers, such as law, economics, public finance, human resource management, public management and urban planning/rural development. A project planning and management seminar was also designed specifically for those civil servants on the Policy Committee, directors of municipal departments and other senior staff. In addition, as part of OSCE efforts to promote democratic governance and the mainstreaming of these principles into the administration's policy and decision-making process, the OSCE organized seminars for municipal and civil servants outside of Kosovo. Twenty-five chief executive officers from Kosovo municipal assemblies took part in a one-week training course in Norway, addressing the role and responsibility of the chief executive officer in practice. In addition, seminars in France and Germany provided participants with the opportunity to become acquainted with municipal policy, municipal self-governance and urban planning and budgeting activities. Further capacity-building needs to continue as a matter of urgency both to ensure a solid foundation for municipal self-government and to prepare public administration officials for the huge undertaking of provisional self-government at the central level.

E. Police and justice pillar

38. Effective law and order is an essential prerequisite for Kosovo's transformation into a stable democratic society. Since his arrival, my Special Representative has made the establishment of an effective law and order system a clear Mission priority. To help achieve this, UNMIK formally launched the new police and justice pillar on 21 May. The police and justice pillar, or "Pillar I", realigns UNMIK police and the Department of Judicial Affairs into one structure in order to strengthen the fight against crime by providing greater focus, centrality and coordination of efforts. The recognition that law enforcement and justice require sustained international oversight is reflected in the Constitutional Framework for Provisional Self-Government, which keeps the areas of justice and police under the sole purview of my Special Representative. The new pillar will allow UNMIK to strengthen the focus of its international resources, in cooperation with KFOR, to achieve increasingly effective operations.

39. Given the importance of the new pillar, it is my intention to have the new structure headed by a deputy special representative, as with the other pillars of UNMIK. To this end I am requesting the establishment of a new post on an urgent basis. In the interim, the new pillar is under the leadership of the Principal Deputy Special Representative. I welcome the support of the Security Council regarding the creation of this new pillar as expressed by members of the Council on 9 April (see S/PV.4309). The police and justice pillar has the following objectives: to consolidate a law and order structure that is responsive to peacekeeping and peace-building objectives and will contribute to the promotion of the rule of law institutions in Kosovo; to maintain effective international control and oversight over police and justice activities during the medium term, so that an effective transition to future management by the Kosovo communities can be implemented; to increase the short-term impact of law and order efforts through enhanced coordination of information and work; to enable effective police and judicial response against destabilizing serious criminal activity in Kosovo; to establish an unbiased judicial process through initial international participation and reform of the judicial system.

40. The creation of the new pillar coincides with robust measures UNMIK is taking to bolster the

legislative basis for prosecuting serious crime, including terrorism and organized crime. On 24 May, my Special Representative signed Regulation 2001/10 on the Prohibition of Unauthorized Border/Boundary Crossings, which came into effect on 4 June alongside Regulation 2001/7 on the Authorization of Possession of Weapons in Kosovo, following a month-long amnesty. Another key initiative is the elaboration of legislation to combat terrorism, which is nearing completion. In tandem with these strong initiatives, UNMIK is creating more robust mechanisms for detaining alleged criminals, and is implementing systems to make the criminal prosecution institutions more just. International judges and prosecutors continue to provide oversight and management of special interest cases. The number of international judges (11) and prosecutors (5) must be increased, at least doubled, in order to devote more resources to the problem of organized crime and deal with the anticipated increase in detainees following the promulgation of the above legislation. International judges and prosecutors currently focus on war crimes, ethnically motivated crimes, organized crime and other cases that may threaten the peace process. Fundamental to this process is ensuring fair trials for persons of non-Albanian ethnicity accused of serious crimes.

41. Considerable effort is being made by Penal Management to determine a long-term prison capacity policy. Funding for a quick build detention centre has not, to date, been forthcoming and the Mission is now focusing efforts on temporary detention arrangements, which will also become an urgent necessity following the entry into force of the weapons and border/boundary crossing legislation. These efforts will concentrate, initially, on further developing Dubrava prison. A lack of detention capacity, unless resolved, has the ability to seriously undermine efforts to bring greater law and order to Kosovo.

42. Key to the efforts of UNMIK to improve the justice system is the Mission's activities, through the Prosecution Services and Court Administration (PSCA), to coordinate and implement local judiciary reform. The PSCA is primarily responsible for the implementation of the overall strategy for the development, organization and efficient functioning of the judicial system. Their responsibilities are twofold: administration of courts and other judicial institutions; and the provision of administrative and technical support in the appointment of local judges, prosecutors, lay judges and other support staff. There are currently 325 local judges, with 51 prosecutors, plus a further 617 lay judges and about 1,000 operational support staff, employed in local courts and other non-correctional judicial institutions. The PSCA is taking part in capacity-building efforts in cooperation with OSCE. The PSCA has also developed a comprehensive inspection system, in order to ensure the independence and impartiality of the judiciary. Administrative Direction 2001/4 was issued on 11 May establishing the Judicial Inspection Unit, which is responsible for conducting inspections, audits and investigations within the judicial system.

43. The total number of UNMIK police as of 21 May 2001 is 4,387: 3,298 in the civilian police and 1,089 in special police units (see annex II). UNMIK police priorities remain to increase success in solving serious crimes, particularly those that are ethnically and politically related. Work continues to reduce non-critical policing functions to allow an increased concentration of resources on core police priorities. This was greatly helped by the entry into force on 25 April of legislation on the operation of security service providers, which will free up UNMIK police resources. The new pillar will also oversee the planned expansion of the Kosovo Police Service (KPS) from the current target goal of 4,000 to a total of 6,000 police officers by the end of 2002. To date 3,847 basic recruits have graduated from the Kosovo Police Service School. As the Mission nears its target of 4,200 KPS officers by June 2001, the focus of training activities will shift from basic training to more supervisory and specialist training anticipating the handover strategy of supervisory responsibility by UNMIK police to KPS officers.

F. Kosovo Protection Corps

44. UNMIK has continued to work closely with KFOR in providing policy planning and logistic support for the Kosovo Protection Corps (KPC) in an effort to facilitate its full effectiveness as an effective civil protection organization. A key event in the development of the KPC was the establishment of the KPC Inspectorate, which was authorized by the Commander of KFOR on 21 May. The role of the Inspectorate is to provide the KPC with an effective internal means of maintaining consistent training, discipline, and operational standards throughout the

organization. It will not have any law enforcement role, nor will it be armed. Training of KPC members continues in a variety of specialized functions to improve emergency response capabilities. Specific emergency response plans have been drawn up for all regions and exercises are being conducted. A select group of 15 KPC members are receiving training in mine clearance and will constitute the "core" of future KPC mine clearance teams that will take over mine clearing responsibility from the United Nations Mine Action Coordination Centre at a later date. An important issue for the KPC is the activation of the reserves and the transfer of some regular KPC personnel into that component. The pilot phase of this programme is to begin in June, with 75 KPC members undergoing three months of vocational training provided by the International Organization for Migration.

G. Media

45. UNMIK continues to make important progress in the area of media regulation. The institution-building pillar recast the omnibus broadcast regulation into three documents: a regulation establishing Radio Television Kosovo (RTK) as a legal entity; a Regulation establishing the Interim Media Commission (IMC); and an administrative directive establishing the procedures for a licensing fee. The Media Advisory Council held two political consultations on the RTK Regulation, which was endorsed by IAC on 22 May. RTK is now broadcasting regular programming four hours daily, as well as live broadcasts of KTC meetings in a variety of languages. Television programmes are now also produced in Kosovo Serb localities and edited for broadcast in Pristina. Following an exhaustive search and interview procedure that won compliments from Kosovo political leaders for its transparency and the subsequent appointment of a new General Director of RTK and, the first tranche of funding from the European Agency for Reconstruction (EAR) for RTK was approved in March, and a tripartite agreement was signed among EAR, RTK and OSCE, which clarifies the responsibilities of each party for monitoring the performance and fiscal accountability of RTK. The Kosovo Terrestrial Transmission Network (KTTN) system is now broadcasting four radio channels (two of *Radio Kosova, RTV-21*, and *Radio Dukajini*) and three television programmes (*RTK, KohaVision* and *RTV-21*) to approximately 60 per cent of the population. Despite problems caused by the closing of the border between Kosovo and the former Yugoslav Republic of Macedonia, site preparation for the remainder of the system is continuing.

46. Important work continues in relation to assisting media development in the minority communities. The institution-building pillar devised a procedure to award permits to broadcast at low power to enable additional broadcasts in certain enclaves, which were under-served by existing media outlets, an initiative that was welcomed by local Kosovo Serb political leaders. In addition, a grant was also awarded to a networking conference for all Kosovo Serb radio stations, arranged by *Radio Contact Plus* at the end of March, which helped advance the cooperation and exchange of news and information between the enclaves.

47. The Temporary Media Commissioner continues to be deeply concerned about the current levels of inflammatory and potentially dangerous accusations and counter-accusations in the local press. The institution-building pillar supported the Commissioner with legal advice and administrative facilitation in his efforts to fine two dailies, *Bota Sot* and *Epoka e Re*, for infringements of the Temporary Print Code. The institution-building pillar and the Commissioner recommended the extension of the Temporary Print Code owing to the lack of any community-initiated alternative regimes for preventing libel, slander and hate speech. To ensure compliance with the Print and Broadcast Codes, OSCE monitors the media on a daily basis. With a total of over 70 Kosovo radio stations and 23 Kosovo television stations, media monitoring, at both the central and local level, continues to provide systematic evaluation of adherence to the Print and Broadcast Codes.

48. As part of its capacity- and institution-building mandate, the institution-building pillar worked with the Department of Social Sciences at the University of Pristina to ensure that the approval of a proposal for the creation of a post-graduate Master of Arts degree in journalism. OSCE is currently playing an active role in defining the curriculum and identifying donors.

H. Economic reconstruction

49. Unemployment remains among the most important challenges to the establishment of a legitimate, self-sustaining and revenue-generating

economy in Kosovo. A recent report on unemployment and employment office activities in Kosovo has reached the following conclusions: 51 per cent of all job seekers are inadequately qualified and the majority (82 per cent) are under 18 years of age; employment offices produced very modest results, owing to both the lack of jobs as well as the initial ineffectiveness of the offices; over 10,000 job seekers were provided with training, mostly through non-governmental organizations; the coverage of minorities, primarily Kosovo Serbs, under category II (social assistance for the most needy unemployed) was unsatisfactory, except in the Gnjilane region; and business sector monthly salaries (average DM 808) were generally higher than in public services. While my Special Representative has identified the establishment of a job-producing market economy in Kosovo as a priority, it is concurrently linked with the economy's ability to produce appropriate revenue for its own management.

50. One means of improving revenues for the Kosovo consolidated budget, which provides the financial underpinnings for both self-government and public economic management, has been the establishment of tax collection points at Kosovo's borders and boundary lines, which have been in operation since February 2000 (see map in annex IV). At the tax collection points a 15 per cent sales tax is levied on all saleable goods, except wheat, flour, fruit and vegetables, and an excise tax is levied on alcohol, cigarettes and fuel at various rates. Rather than levying these taxes at innumerable points of sale inside Kosovo, it is more convenient to levy these at the point of distribution at the perimeter. In addition, a customs duty of 10 per cent is levied, with the exception of goods originating or produced in the former Yugoslav Republic of Macedonia (here a tax of one per cent is levied under the 1996 free trade agreement between the Federal Republic of Yugoslav and the former Yugoslav Republic of Macedonia), and goods originating or produced in the Federal Republic of Yugoslavia, in recognition of the fact that these goods are moving within the same country. However, all non-exempt commercial goods coming through these points are liable to excise and sales taxes, whatever the origin. UNMIK notified the Government of the Federal Republic of Yugoslavia of the Mission's tax collection policy in February 2001. Comprehensive efforts have been under way to ensure that the facts about these tax collection points (which the European Union calls sift points on the boundary with Serbia) are understood among the local population, including through presentations by experts, leaflets and radio programmes. Despite efforts to explain the legality and necessity of the tax collection points to the public, when the points were physically placed on 15 April, the Kosovo Serb population in Leposavic, Zubin Potok and Zvecan (all in Mitrovica region) expressed their discontent through protests and roadblocks. The Kosovo Serbs interpreted the tax collection points to be customs points compromising the sovereignty of the Federal Republic of Yugoslavia and in violation of Security Council resolution 1244 (1999), and contended that they resulted in a double taxation. A series of high-level discussions with the Yugoslav authorities is under way to explore the means by which the customs administrations of UNMIK and the Federal Republic of Yugoslavia can cooperate on issues such as anti-smuggling measures and fraud reduction. An important development was the signing at the end of May of a joint statement by the economic reconstruction pillar and the Yugoslav authorities, in which the latter agree to the tax collection points along the administrative boundary line in northern Kosovo.

51. As part of the overall strategy for creating a sustainable, soundly based taxation system for Kosovo, an important event in the past quarter has been the introduction of value added tax (VAT) legislation. The 15 per cent VAT will replace the sales tax and the hotel, food and beverage tax, and will come into effect in July. As donor funding tapers off, the VAT will be the main tax in Kosovo. In preparation for the introduction of the VAT, 77 new tax inspectors were hired and have received basic training and the first phase of VAT legislation training. They are now undertaking on-the-job training to be followed by more in-depth audit training. The Tax Administration continues to experience difficulties with the lack or inadequacy of records and the difficulty of obtaining third-party information. Furthermore, the level of abusive behaviour of taxpayers towards tax inspectors is increasing as the audit activity is intensified. This has serious implications for the effectiveness of the programme as well as for the recruitment and retention of tax inspectors.

Table
Kosovo consolidated budget donor commitments
(In deutsche mark)

All Kosovo			*2001 revised commitment gap: 328 725*			
Est. cost	*Committed*		*Contracted*		*Spent*	
2000-2001	*End Q4 00*	*New Q1 01*	*End Q4 00*	*New Q1 01*	*End Q4 00*	*New Q1 01*
2 777 123	2 059 864	381 249	1 343 256	451 336	1 063 059	215 599

52. The 2001 Kosovo consolidate budget sought some DM 700 million in new commitments from donors to fund public reconstruction and investment programme activity. The requirement was foreshadowed in "Kosovo 2001-2003 from reconstruction to growth" published in September 2000. This early highlighting of the requirement compared with 2000 resulted in a strong, prompt response from donors in 2001 with DM 381 million, over half of the requirement, having been committed by the end of March (see table). New contracts worth DM 451 million have been let, partly against funds committed in 2000. A successful donor conference was held in February, jointly hosted by the European Commission, UNMIK pillar IV and the World Bank.

53. The Banking and Payments Authority of Kosovo (BPK) began its awareness-raising campaign on the introduction of the euro in April with a number of seminars and press conferences. The BPK is working closely with the three licensed commercial banks in Kosovo to make the changeover as smooth as possible. Strong warnings have also been sent through the media that the euro changeover will not be an opportunity to launder money, as stringent measures have been implemented. The changeover to the euro will have a significant impact in Kosovo and should guarantee a stable financial environment. It is also hoped that the euro changeover will create a further incentive for locals to place their money in banks in Kosovo.

54. The EAR is funding a contract for private sector development which is being hosted and run in conjunction with the private sector development team of the economic reconstruction pillar's Department of Trade and Industry. Beginning during the second quarter, the project has two main goals. One is to establish in the Department for Trade and Industry a framework to provide adequate services for the private sector. The other is to establish local enterprise agencies in each of the regions of Kosovo to provide support for small and medium-sized enterprises, including training and consultancy services and help in accessing new markets. The project is being run in consultation with the local business community to ensure that local enterprise agencies are designed to reflect the needs of Kosovo's businesses.

55. Discussions continue on how best to prepare for the movement towards corporatization and privatization. A policy of commercialization, the tendering of long-term leases on socially owned enterprises, has been adopted to obtain much-needed investment immediately, helping to safeguard and create jobs. Successful examples of this include Sharr Cement at Blace (Gnjilane region), the Mirusha Construction Company in Klina (Pec region) and Progress Foods in Prizren. The total number of successfully concluded commercialization deals now totals five. It is hoped that policies to allow privatization to take place will be implemented in the coming months, accompanied by an administrative directive prohibiting municipal assemblies from illegally assuming power over socially owned enterprises, as well as regulations requiring creditors of these enterprises to register their claims.

56. The Trepca Management and Advisory Team has begun efforts to enable the revitalization of Trepca in accordance with the UNMIK long-term aims for the industrial complex. A core set of Trepca's facilities, centred on its primary business of lead and zinc mining and processing, has significant potential to attract commercial financing. Based on this understanding, UNMIK is to facilitate, as rapidly as possible, the restructuring of Trepca and the transition of its viable facilities to an environmentally, socially and economically sound commercial operation. The Trepca Management and Advisory Team's efforts are designed to overcome the handicaps imposed by years of mismanagement and exploitation. One of the consequences of the mismanagement of the past decade

was the complete failure of Trepca management to continue exploration. The major production mines of Trepca have sufficient mineral resources to sustain mining on a commercial basis for 5 to 10 years, and the geology of the area strongly suggests the potential for the expansion of existing ore bodies. UNMIK asset preservation and accessibility efforts are designed to enable the resumption of operations of the core facilities on a commercially viable basis as soon as possible.

I. Relations with the Federal Republic of Yugoslavia

57. The political environment in Belgrade has provided an opportunity for Yugoslav and Serbian authorities to facilitate the implementation of Security Council resolution 1244 (1999) by encouraging the Kosovo Serbs to cooperate with and participate in the UNMIK structures at all levels. It should be noted, however, that the extent of this influence is variable, as is Belgrade's perceived willingness to cooperate with UNMIK. Nonetheless, it is important that the Mission and the authorities of the Federal Republic of Yugoslavia continue to engage in substantive discussions on practical issues of mutual concern in order to address specific concerns of the Kosovo Serb community. Issues of importance to UNMIK, which are currently under discussion with the Belgrade authorities, include the situation in Mitrovica and northern Kosovo and registration of all Kosovo Serbs, including internally displaced persons in Serbia proper, with a view to ensuring the broadest possible participation in the Kosovo-wide elections in November. In this regard, my Special Representative had constructive discussions with President Kostunica in Belgrade on 5 April and in New York on 9 May, and with Foreign Minister Svilanovic in Tirana at the conference of the South-Eastern Europe Cooperation Process on 16 May. UNMIK is encouraged by and appreciative of concrete gestures such as the Federal Republic of Yugoslavia's recent decision to return the "Djakovica Group" to Kosovo. The release without incident on 25 April of 145 Kosovo Albanians charged with "terrorism", following the Serbian Supreme Court decision on 23 April to overturn the controversial verdict on the "Djakovica Group", was a breakthrough event. The detainees were released pending a re-trial in a lower court at a date to be determined. Approximately 267 Kosovo Albanians remain in prisons in Serbia proper and my Special Representative has continued his call to have all detainees returned to Kosovo where their cases can be reviewed by UNMIK. Of these, 149 are common criminals and the remainder are political prisoners charged with various crimes, including terrorism, under the criminal code of the Federal Republic of Yugoslavia.

58. The establishment of an advance element of the UNMIK Office in Belgrade has been a key component of improving relations with the Federal Republic of Yugoslavia. Cooperative discussions have been launched in various practical areas, including coordination on the resolution of missing persons cases, information exchange on proceedings of the judiciary, and education and health issues. An important step forward was the first meeting on the missing and detainees between UNMIK and a delegation from the Federal Republic of Yugoslavia that took place in Pristina on 25 May, where it was agreed that concrete work could begin in the format of working meetings between experts.

IV. Observations

59. In the face of considerable political, security and economic challenges, UNMIK continues to make steady progress in the implementation of its mandate and the objectives my Special Representative outlined at the beginning of his tenure in January 2001. Through complex negotiations, my Special Representative has laid the groundwork for provisional self-government with the elaboration of the Constitutional Framework, which will form the basis of Kosovo-wide elections on 17 November. The Constitutional Framework represents a balanced elaboration of the concept of "substantial autonomy" envisaged in Security Council resolution 1244 (1999) and can work to the benefit of all Kosovo communities. It is now important to move ahead with elections, for which the preparations are already under way, including crucial public administration capacity-building measures to prepare the residents of Kosovo for the task of self-government that lies ahead. The majority of Kosovars yearn for stability through self-government. In turn, a more stable Kosovo will contribute to regional stability.

60. It is critical to seek the active engagement of all communities in the process of building the institutions of provisional self-government. This is the only way to ensure that both the process and the outcome are

successful. A major challenge in this regard is securing the participation of the Kosovo Serb community. The Kosovo Serb community should realize that it cannot hold itself outside of the UNMIK-led process and that the benefits of cooperation are preferable to marginalization. For the Kosovo Serbs, participation in this process and in the coming elections will decide whether this community can become fully reintegrated into Kosovo society. This, in turn, would pave the way for an improved security situation, a precondition for large-scale return. In order to maximize the chances of success, my Special Representative is pursuing several initiatives in parallel which, it is hoped, will have a cumulative, beneficial impact on the Kosovo Serb community. A key aspect of this is the need for reciprocal steps to create confidence between the majority and minority communities. In this regard, I note with cautious optimism the apparent beginning of cooperation on the missing and the recent suggestion by one of the Kosovo Albanian leaders that Kosovo Albanians be included in the Joint Committee for Return of Kosovo Serbs. Another encouraging development is the apparent realization on the part of the Kosovo Albanian leadership that they must assume responsibility for a tolerant and all-inclusive society. This is important as the success of provisional self-government will depend on the willingness of all Kosovo communities to engage and fully participate.

61. The tense security situation, punctuated by outbursts of violence against Kosovo minority communities, remains the single most important threat to the attainment of the international community's goals. I welcome the robust policies of UNMIK towards improving the law and order situation, including the recent establishment of a separate security and justice pillar, and clear initiatives to tackle terrorism and organized crime. These initiatives are extremely important as continued insecurity undermines the advancement of the democratic process in Kosovo. As the political and security tracks are interrelated, they are rightly being pursued in parallel. Meaningful self-government has a better chance of success if law enforcement policies are reinforced and the quality of Kosovo's judiciary is improved to better combat organized crime and those who aim to destabilize Kosovo.

62. It is important for UNMIK that the Federal Republic of Yugoslavia engage in the process of implementing Security Council resolution 1244 (1999). Despite existing differences, there is steady improvement in UNMIK relations with the Yugoslav authorities. These have been enhanced by substantive gestures on Belgrade's part, such as the return of the "Djakovica Group", which was most appreciated. I call again on the authorities of the Federal Republic of Yugoslavia, however, to release the remaining detainees to the authority of my Special Representative, who can arrange for a review of their cases by UNMIK. I am pleased to see the beginning of dialogue on the missing, which is a crucial confidence-building measure. In this regard, it is also important that the Kosovo Albanian community cooperate with UNMIK in order to resolve the fate of the missing within Kosovo. A substantive gesture of the utmost importance would be the encouragement of Kosovo Serb registration and full participation in the interim structures as a clear sign to the Kosovo Serbs that their future is in Kosovo. In this regard, I very much welcome the recent positive statements by President Kostunica regarding registration of the Kosovo Serb community.

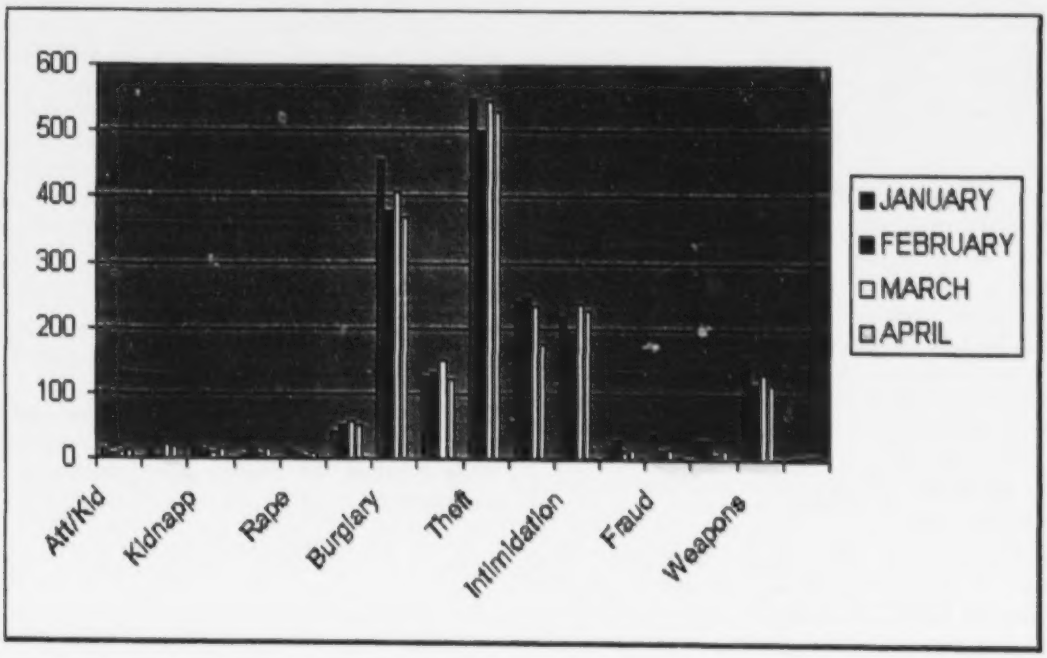
63. The way ahead for UNMIK in the coming months is clear. In the short term, the political and security challenges to achieving the Mission's goals may loom large, but they will not dissuade UNMIK from remaining on track to achieve the long-term objectives of holding Kosovo-wide elections, implementing the Constitutional Framework and setting the stage for self-government and economic viability. In addition to the continued unity of effort of its components, in close cooperation with KFOR, in the crucial period in the run-up to elections, the Mission will require the ongoing support of its activities by the international community, including material support, and, above all, the strong and committed support it has enjoyed from members of the Security Council and Member States since its inception.

64. In conclusion, I would like to express my gratitude to my Special Representative, Hans Haekkerup, and the international and local staff of UNMIK, whose tireless efforts and dedication under extremely difficult and demanding conditions have made possible the notable achievements of the last three months.

Annex I

Crime statistics

	January	*February*	*March*	*April*
Attempted kidnaps	12	6	9	13
Attempted murders	16	2	22	20
Kidnappings	18	14	10	17
Murders	5	18	8	16
Rapes	15	9	3	11
Robberies	41	52	57	50
Burglaries	455	379	406	369
Criminal damage	126	131	151	123
Thefts	550	502	545	531
Car thefts	241	246	233	178
Intimidations	219	193	236	228
Aggravated assaults	19	29	14	17
Frauds	40	14	17	2
Drugs	28	29	7	15
Weapons offences	154	116	130	115
Evictions	2	4	8	6



Annex II

Composition and strength of UNMIK police (as of 21 May 2001)

S No	*Nationality*	*Civilian police*	*Special police unit*
1	Argentina	22	115
2	Austria	68	0
3	Belgium	5	0
4	Benin	2	0
5	Bangladesh	101	0
6	Bulgaria	98	0
7	Canada	68	0
8	Cameroon	22	0
9	Czech Republic	22	0
10	Denmark	29	0
11	Egypt	64	0
12	Estonia	2	0
13	Fiji	35	0
14	Finland	24	0
15	France	79	0
16	Gambia	5	0
17	Germany	318	0
18	Ghana	114	0
19	Greece	19	0
20	Hungary	5	0
21	Iceland	4	0
22	India	271	240
23	Italy	62	0
24	Côte d'Ivoire	1	0
25	Jordan	144	240
26	Kenya	25	0
27	Kyrgyzstan	4	0
28	Lithuania	9	0
29	Malaysia	48	0
30	Malawi	19	0
31	Nepal	35	0
32	Niger	4	0
33	Nigeria	94	0
34	Norway	27	0
35	Pakistan	113	114
36	Philippines	62	0

S No	*Nationality*	*Civilian police*	*Special police unit*
37	Poland	9	115
38	Portugal	20	0
39	Romania	67	0
40	Russian Federation	102	0
41	Slovenia	15	0
42	Spain	19	111
43	Switzerland	8	0
44	Sweden	47	0
45	Tunisia	9	0
46	Turkey	111	0
47	United Kingdom of Great Britain and Northern Ireland	136	0
48	Ukraine	40	154
49	United States of America	595	0
50	Zambia	49	0
51	Zimbabwe	47	0
	Total	**3 298**	**1 089**

Annex III

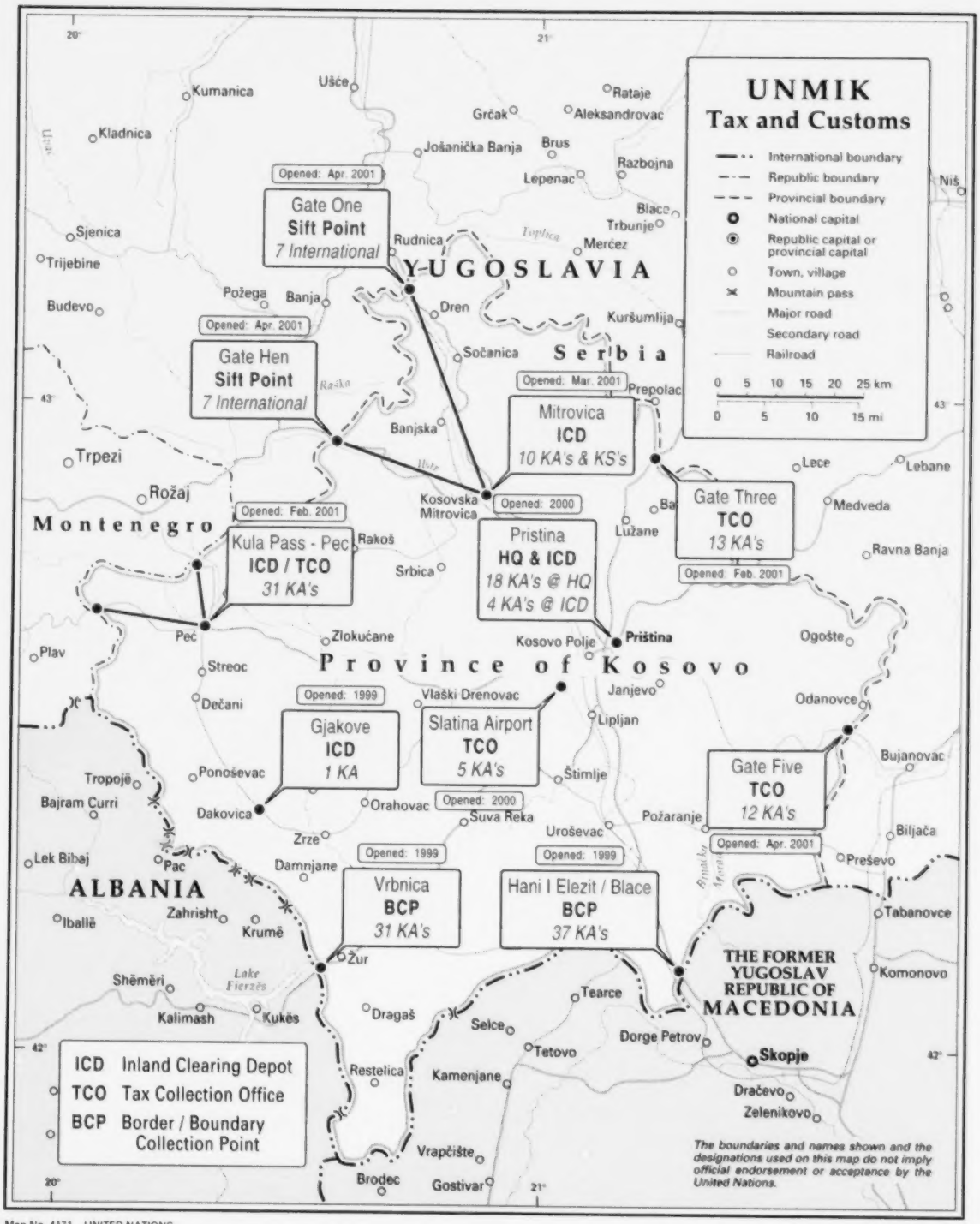
Composition and strength of the military liaison component of the United Nations Interim Administration Mission in Kosovo (as of 12 May 2001)

Nationality	*Number of Liaison Officers*	*Remarks*
Argentina	1	
Austria	2	
Bangladesh	1	
Belgium	1	
Bolivia	1	
Bulgaria	1	
Canada	1	
Chile	1	
Czech Republic	1	
Denmark	1	
Finland	2	
Hungary	1	
Ireland	3[a]	
Italy	1	
Jordan	1	
Kenya	1	
Malawi	1	
Malaysia	1	
Nepal	1	
New Zealand	1	
Norway	1	
Pakistan	1	
Poland	1	
Romania	1	
Russian Federation	2	
Spain	2[b]	
Switzerland	1	
Ukraine	1	
United Kingdom of Great Britain and Northern Ireland	1[c]	
United States of America	2	
Zambia	1	
Total	**38**	**Military Liaison Component: 38**

[a] Including two non-commissioned officers.
[b] Including the Chief Military Liaison Officer.
[c] In the Principal Deputy Special Representative of the Secretary-General, police and justice pillar.

Annex IV

A. Tax collection points



Map No. 4171 UNITED NATIONS
June 2001

Department of Public Information
Cartographic Section

B. United Nations Interim Administration Mission in Kosovo district centres

Map No. 4133 Rev. 4 UNITED NATIONS
June 2001

Department of Public Information
Cartographic Section

United Nations S/2001/566

Security Council

Distr.: General
6 June 2001

Original: English

Letter dated 6 June 2001 from the Secretary-General addressed to the President of the Security Council

In paragraph 15 of its resolution 1330 (2000) of 5 December 2000, the Security Council requested the Secretary-General, inter alia, to make the necessary arrangements, subject to the approval of the Council, to allow funds up to 600 million euros deposited in the escrow account established by resolution 986 (1995) to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions, and called upon the Government of Iraq to cooperate in the implementation of all such arrangements.

In order to assist me in developing the necessary arrangements, I established a team of experts, which visited Iraq from 18 March to 1 April 2001. In carrying out its work, the team received the full cooperation of the relevant authorities of the Government of Iraq. The executive summary of the report of the team of experts is contained in the annex; the full report is being made available to the members of the Council.

Since June 1998, a total of $3 billion has been authorized by the Security Council for the procurement of oil spare parts and equipment under phases IV to IX (extended to 3 July 2001, pursuant to resolution 1352 (2001). As at 1 June 2001, the Office of the Iraq Programme had received a total of 3,593 applications valued at over $2.29 billion. Of that total, 2,840 applications, valued at over $1.646 billion have been approved, 451 applications valued at $399 million have been placed on hold and 114 incomplete or non-compliant applications, valued at $122 million, remain idle pending further action, mostly by the suppliers. Although the suppliers have not yet submitted the applications for contracts signed under phase IX, the Government of Iraq has recently provided the Office of the Iraq Programme details of 185 contracts signed, at a total value of 381 million euros.

As at 1 June 2001, the total value of oil spare parts and equipment delivered to Iraq was over $716 million. Additional supplies, valued at over $800 million under already approved applications, are in the production and delivery pipeline.

The team of experts reiterated the views expressed in previous reports by expert missions that the oil industry in Iraq continues to face significant technical and infrastructural problems, which unless addressed will inevitably result in the reduction of crude oil production from the current levels. As stated in paragraph 13 of the attached executive summary, the peak levels of production recorded in phases

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VI and VIII of the programme were only achieved at the expense of long-term damage to the oil-bearing structures utilized, and with increasing collateral damage to surface facilities operating beyond recommended (and safe) maintenance periods. It is therefore essential to take all necessary measures to address the rapid decline of oil production capabilities of existing fields, as well as to ensure additional production capabilities in order to sustain the current production and export levels.

I welcome the decision taken by the Security Council in paragraph 15 of resolution 1330 (2000) since the provision of funding for the purchase of oil spare parts and equipment for the oil industry alone is not sufficient unless funding is also provided to cover the cost of their installation and maintenance.

The team of experts has formulated a set of arrangements and a budget for the utilization of the funds from the escrow account, which follows normal oil company methodology and addresses the cash component requirements of the Iraqi oil industry over a period of 12 months. The team of experts has correlated the proposed projects with the oil spare parts and equipment already delivered. In a number of cases, however, proposed projects were based on the expectation of the Ministry of Oil of the early delivery of spare parts and equipment not yet approved. Benchmarking of the installation and maintenance costs of spare parts and equipment with other oil industries in the region supports the proposed expenditures. Both the budget and the correlation with approved contracts are summarized in detail in the full report of the team of experts.

As stated by the team of experts, the discussions with the Ministry of Oil and the visits to various operating companies in Iraq were used to verify the cash component requirements as far as possible. Physical evidence of costs were supplied and substantiated, wherever possible, by reference to, inter alia, pay slips, housing and food costs. It is the opinion of the team of experts that the expectation of the Ministry of Oil for the renewal of the allocation of 600 million euros with each extension of the mandate for the programme by the Council is commensurate with the size and complexity of the projects that are required to be installed, commissioned and maintained.

The proposal is for the funds to be initially transferred from the United Nations escrow account to the Rafidain Bank in Amman. Subsequently, the funds will be transferred in euros, in monthly instalments, to the Ministry of Oil, for transfer to the operating companies in Iraqi dinars against the agreed cash flow requirement. As part of the proposed mechanism, the Ministry of Oil has also agreed that up to three monitors will be stationed in Baghdad to participate in observations related to the quarterly review referred to in paragraphs 37 to 40 of the attached executive summary.

I welcome the report and the main conclusions of the team of experts. I should like to recommend that the Security Council approve the proposed arrangements for the utilization of the 600 million euros, pursuant to paragraph 15 of resolution 1330 (2000). Should the Council approve the proposed arrangements, I shall ask the Executive Director of the Iraq Programme, in full consultation with the United Nations Treasurer, to work out the necessary details in order to ensure full transparency and accountability in the utilization of the funds. The Council will be kept informed on the implementation of the arrangements in place.

I should like to take this opportunity to thank the members of the team of experts as well as the Government of Iraq for its full cooperation with the team.

(*Signed*) Kofi A. **Annan**

Annex

Report of the team of experts established pursuant to paragraph 15 of Security Council resolution 1330 (2000)

Executive Summary

A. Terms of reference

1. In paragraph 15 of resolution 1330 (2000) of 5 December 2000, the Security Council requested the Secretary-General, inter alia, to:

> "... make the necessary arrangements, subject to the approval of the Council, to allow funds up to 600 million euros deposited in the escrow account established by resolution 986 (1995) to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions ..."

2. Pursuant to paragraph 15, the Secretary-General established a team of experts, comprised of the following:

- Team Leader;
- Oil services budgeting expert/accountant;
- Oil reservoir engineer;
- Oil services refining and training expert;
- Saybolt manager in Iraq for monitoring of oil spare parts and equipment;
- Office of the Iraq Programme oil industry expert.

3. The team of experts visited Iraq from 18 March to 1 April 2001 and was assigned the following:

(a) The team worked closely with the Government of Iraq to make the necessary arrangements, subject to the approval of the Security Council, to allow funds up to 600 million euros deposited in the escrow account established by resolution 986 (1995) to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions;

(b) On the basis of consultations with the relevant authorities of the Government of Iraq, the team assisted the Secretary-General in preparing a report, for consideration by the Council, which reflects discussions with the Iraqi authorities and the proposed arrangements for the use of the 600 million euros.

4. The team of experts held meetings with officials of the Ministry of Oil and the Iraqi State Oil Marketing Organization (SOMO) in Baghdad, as well as with officials of the North and South Oil Companies in Kirkuk and Basrah, respectively. The team then returned to Baghdad for further consultations and debriefings.

5. The work plan for the team of experts is contained in the appendix.

B. Methodology

6. The team of experts met immediately upon arrival with officials from the Ministry of Oil to plan and discuss the structure of the mission. During the first meetings in Baghdad with the Ministry of Oil, a business plan approach was

developed for proposed expenditures, following normal oil company procedures, and to structure a local currency budget covering a 12-month period, related to the cost of installation and maintenance, including training services, of equipment and spare parts, funded in accordance with resolution 1175 (1998) and subsequent related resolutions. A 12-month period was deemed appropriate since, on an international basis, oil companies operate on annual budgets. Anything shorter is impractical in terms of project lifetime; anything longer does not impart sufficient financial control.

7. This budget was further developed during the visits to the operating companies in both the north and south of Iraq. The team discussed the projects proposed with officials of the operating companies during initial meetings. During this time, the team's budget expert/accountant reviewed the financial aspects of the utilization of the proposed local currency budget. Where possible, the proposed expenditures were linked to oil spare parts and equipment delivered under the oil for food programme; where spare parts and equipment were yet to be delivered the Ministry of Oil's expectation of an early delivery was noted.

8. Additionally, while on site in the north and south of Iraq, the team of experts visited installations and sites related to the proposed projects in order to ascertain the current level of spare parts and equipment installation activity and the quality of work already undertaken, and to note examples of specific requirements within the proposed activities. These proposed activities included waste-water treatment projects, engineering workshops, de-gassing stations and new field hospitals.

C. General observations

9. Oil production peaked in July 1990, at about 3,500,000 barrels per day (bpd). As a result of significant damage to the oil industry infrastructure sustained during the conflict in 1990-1991, followed swiftly by the United Nations sanctions regime, crude oil production dropped dramatically, to about 300,000 bpd. Subsequently, the oil infrastructure was partially repaired, without access to external equipment or technology, and often by cannibalization and short-term substitution, in order to reinstate essential supplies of refined products and gas required by the population and fuel for the electricity sector.

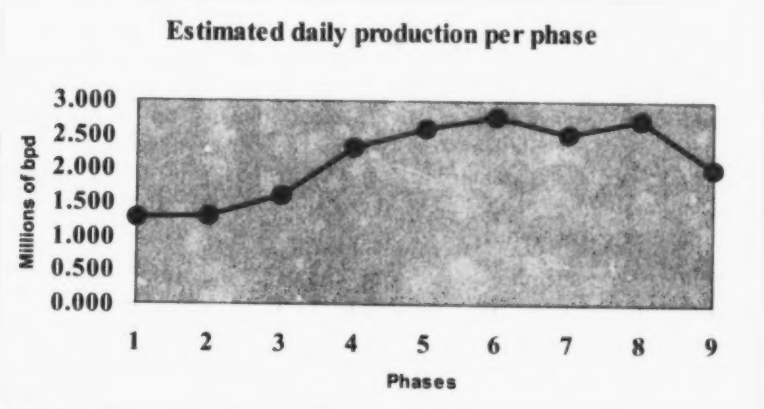
10. The volumes of crude oil exported from Iraq under the oil for food programme have been monitored and reported as follows:

Phase	*Total volume (millions of barrels)*	*Barrels exported per day (millions of barrels)*
I	119 506 261	0.664
II	126 942 342	0.705
III	182 142 984	1.012
IV	308 130 603	1.712
V	360 900 754	2.005
VI	389 628 891	2.165
VII	343 372 849	1.908
VIII	382 560 610	2.125
IX (to 30 April 2001)	202 906 071	1.400

11. The internal consumption of crude oil in Iraq is estimated at about 600,000 bpd, of which some 500,000 bpd is processed in local refineries, the balance being exported to Jordan under a special arrangement approved by the United Nations.

12. Under the oil for food programme, the total crude oil production of the Iraqi oil industry is the sum of the quantity exported under the relevant Security Council resolutions and Iraq's internal consumption. Therefore, although there are currently no facilities for the accurate measurement of crude oil production a reasonable estimate of overall production can be made, as follows:

Phase	*Production per day (millions of barrels)*
I	1.264
II	1.305
III	1.612
IV	2.312
V	2.605
VI	2.765
VII	2.508
VIII	2.725
IX (to 30 April 2001)	2.000



13. Crude oil production has therefore not returned to the levels that were experienced, albeit briefly, in July 1990. The peak levels recorded in phases VI and VIII were only achieved at the expense of long-term damage to the oil-bearing structures utilized, with increasing collateral damage to surface facilities operating beyond recommended (and safe) maintenance periods.

14. In March 1998, pursuant to resolution 1153 (1998), discussions were held with the Ministry of Oil to allocate funding from the oil sales revenue, under the programme provided for by resolution 986 (1995), for the purchase of necessary spare parts and equipment for the oil industry in order to sustain and increase crude

oil production to levels sufficient to fund the requirements of the humanitarian programme.

15. Initially, the sum of $300 million was approved for the purchase of spare parts and equipment for the oil industry under resolution 1175 (1998); this continued and was later increased to $600 million per phase under resolution 1293 (2000) of 31 March 2000. Just prior to that, under resolution 1284 (1999) of 11 December 1999, the ceiling for export levels of oil was removed. As at the end of phase VIII (December 2000), a total of $2.4 billion had been allocated to provide spare parts and equipment for the oil industry, of which some $650 million has been delivered; it is estimated that a total of $1.4 billion will be delivered by June 2002.

16. However, as reported by expert missions in 1998 and 2000, the oil industry in Iraq continues to face significant technical and infrastructural problems, which unless addressed will result in the reduction of crude oil production from the current levels. Without the drilling, perforation and connection of new wells, well workovers and the connection of previously drilled wells, the Ministry of Oil considers the recent peaks of crude oil production to be unsustainable.

17. The oil production capabilities of existing fields are declining; without rapid attention to this decline the production capabilities of the Kirkuk region in the north of Iraq could be reduced by 50 per cent over the next 12 months (to 500,000 bpd). In the south, the South Rumailah field lost 150,000 bpd of production during 2000, and without immediate action the overall export capability could be reduced to 1.4 to 1.5 million bpd. New production is therefore an absolute necessity if current production and export capabilities are to be sustained and the humanitarian programme funded at current levels. There are 380 new production wells currently planned by the Government of Iraq to allow production to be stabilized and the long-term expectation of increased production to become a reality.

D. Proposed budget

18. While the spare parts and equipment programme for the oil industry initiated in phase IV has resulted in an increasing rate of arrival of essential equipment, as indicated in paragraph 15 above, the ambitious but necessary plans for sustaining crude oil production proposed by the Ministry of Oil are hampered by two factors:

(a) Absolutely essential items related to sustaining production remain "on hold" in the Security Council Committee established by resolution 661 (1990) (e.g., coiled tubing units for well workover requirements to improve recovery, and perforation equipment to allow initiation of production from either previously drilled wells or planned new wells), and until these items are delivered and operational the probability of effectively dealing with diminishing production will continue to be precarious;

(b) The task of preparing for the arrival of external drilling contractors for the almost 400 new wells planned is an enormous one, requiring numerous access roads, earth-moving and foundation works to allow access to the incoming drilling units and to construct, repair and maintain surface facilities (e.g., de-gassing, de-watering) required to treat current and future crude oil production flows before export or refining can be undertaken.

19. Both these undertakings require an effective, trained and motivated workforce, operating within the confines of professionally managed establishments that are capable of undertaking major civil engineering work on an ongoing basis.

20. As a result of the significant downturn in the economy of Iraq and the lack of routine work schedules since the imposed sanctions regime, companies that previously would have undertaken this work, such as the State Company for Oil Projects, have lost significant numbers of trained staff at all levels and lack the funds to attract and/or train new employees to reverse this trend.

21. In tnis regard, during its mission the team of experts developed two concepts:

(a) The primary concept of providing a regular monthly cash component in local currency to support the installation of delivered equipment, plus related training, maintenance and associated overheads, according to an agreed plan based on standard oil industry "project-planning" methodology;

(b) The secondary concept of a system to provide tangible evidence of the efficacy of this expenditure (the "noticeable effect"), manifest through a quarterly review that can be compared to the annual budget, and to permit allocation adjustments within the budget by reference to the review process.

22. The budget prepared by the team of experts, in close cooperation with the Ministry of Oil, follows normal oil company methodology and addresses the cash component requirements of the Iraqi oil industry over a period of 12 months. During the preparation of the budget, both in Baghdad and at site meetings with the various operating companies involved, the team correlated the proposed projects with the spare parts and equipment already delivered, although, as already indicated, in a number of cases proposed projects were based on the expectation of the Ministry of Oil of the early delivery of spare parts and equipment not yet approved. Both the budget and the correlation with approved contracts are summarized in detail in the full report of the team of experts.

23. It must be noted that throughout their mission the Ministry of Oil maintained to the team of experts that the implementation of paragraph 15 of resolution 1330 (2000) should be based on the Ministry's proposed exchange rate of 450 Iraqi dinars (ID) to 1 United States dollars (US$).

24. The total budget identifies an expenditure of ID 486 billion over a 12-month period. Since the majority of projects have an expected duration of more than 12 months, some as long as three years, there is a strong expectation from the Ministry of Oil that the allocation of 600 million euros will be approved by the Security Council for each phase that the mandate of the programme continues, as is currently the case with oil spare parts and equipment. It is the opinion of the team of experts that this expectation is commensurate with the size and complexity of the projects that are required to install, commission and maintain spare parts and equipment delivered to Iraq. In the context of one of the largest oil-producing operations in the world, it is not a practical proposition to initiate significant, expensive and widespread projects without the guarantee of continued funding. The impact of a "stop-start" situation would be negative — probably in the extreme — on the effectiveness of the operating companies, and would largely negate the positive effects of the initial expenditure, resulting in a "poor value for money" situation.

25. The result of this extensive budgeting exercise, summarized in the report of the budget expert/accountant included in the full report of the team of experts, is for a cash component of ID 486 billion delivered over a 12-month period. This amount is split into two main sections, a capital expenditure (capex) component at ID 202 billion and an operating expenditure (opex) section at ID 284 billion. As per normal oil industry practices, the capex budget is funded by the Ministry of Finance and the opex budget by the Ministry of Oil; they are kept strictly separated in all accounting records and have been separated out in the budget, as prepared by the budget expert/accountant of the team of experts.

26. The discussions with the Ministry of Oil and the various operating companies visited were used to verify the cash component requirements as far as possible, and physical evidence of costs were supplied and substantiated, wherever possible, by reference to pay slips, housing and food costs etc.

E. Benchmarking

27. The viable test of the accuracy of the budgeting exercise is to make comparisons with similar operations elsewhere, i.e., benchmarking. Such an exercise is easily carried out when open exchange rates are involved, but in the scenario presented in Iraq benchmarking becomes much more difficult.

28. Nevertheless, a number of benchmarking maxims are available which bear considerable relevance to the situation in hand, although it should be noted that any benchmarking comparisons require the use of an exchange rate that is at least generally agreed between the Iraqi dinar and the United States dollar.

29. First, the operating costs of oil production are fairly stable in the region, at $1.50 per barrel of oil produced. Using this yardstick and the average crude oil production over phases VII and VIII of 762 million barrels per annum, a figure of $1.15 billion per annum results. As noted in paragraph 23 above, the Ministry of Oil has proposed an exchange rate of ID 450 to US$ 1. At any exchange rate other than one at least close to that proposed by the Ministry of Oil, the figure reflected in the budgeting exercise differs significantly.

30. Another avenue of cost comparison is to measure installation costs relative to capital costs. In the upstream sector, the cost of installation of equipment and maintenance is established internationally at a level near $1 of cost per $1 of capital expenditure. In the downstream sector, the installation and maintenance costs are more on the order of $0.50 of cost per $1.00 of capital expenditure. Since expenditure on spare parts and equipment in Iraq is fixed at $600 million per phase, or $1.2 billion per annum, a figure of $1.15 billion (at an exchange rate of ID 450 to US$ 1, as proposed by the Ministry of Oil) is considered reasonable.

31. Other comparisons can be usefully made with operations in the Persian Gulf region. For example, in one country in the region there are current plans to increase production by 400,000 bpd of crude oil by drilling 400 new wells, at a price of approximately $500 to $600 million. The plan to drill about 400 new wells in Iraq, involving external contractors drilling in a similar terrain, results in comparable costs and is therefore consistent.

F. Proposed arrangement

32. The cash component budget reveals, as expected, a monthly variation in the local requirement as a result of the normal S curve of expenditure in oil field projects — namely a high initial cash requirement to prime the project and a high cash requirement for commissioning on completion. Another consideration is the staggering of the commencement of projects which need to be either coordinated with the expected delivery of spare parts and equipment or coordinated with other related projects.

33. Notwithstanding, this variation is only a few percentage points per month, and suggests that for ease of operation the cash component should be made available to the operating companies in equal amounts per month.

34. The proposed mechanism for the transfer of funds is from the United Nations Iraq escrow account to the Rafidain Bank in Amman, with a subsequent transfer in euros to the Ministry of Oil in monthly instalments as per the budget. The final transfer will be from the Ministry of Oil to the operating companies in Iraq, via local branches of the Rafidain Bank, in Iraqi dinars at an agreed exchange rate.

35. At the time of the mission of the team of experts, based on consultations with the Government of Iraq, the United Nations Secretariat was in the process of conducting a competitive exercise in order to diversify the issuance of humanitarian and oil letters of credit. Seven banks, including BNP-Paribas, which meet the acceptable credit rating, were asked to compete for the banking services required to implement resolution 986 (1995). This process is expected to be completed in June 2001. It should be noted that euro notes would only be available as of January 2002.

36. The euros supplied against the monthly budget requirements will be liquidated in the Rafidain Bank as they are drawn down and converted into Iraqi dinars.

G. Quarterly review

37. As part of this arrangement, the Ministry of Oil has agreed to a quarterly review of progress made with the projects encompassed in the cash component exercise.

38. The quarterly review will include site visits by a United Nations entity to "observe and note the visible effects of expenditure". The Ministry of Oil has agreed to the deployment in Iraq of three qualified personnel, who are fully conversant with the spare parts and equipment programme, to take part in the quarterly reviews.

39. The team of experts visited a number of the sites earmarked for expenditure under the arrangement that can be used as initial reference points for the observation of the visible effects of expenditure. These are elaborated in the full report of the team of experts. There will obviously be more sites involved in the proposed arrangement than the limited number of sites that the team of experts were able to visit due to the short time available to the team during the mission.

40. The proposed quarterly review will also be used by the Ministry of Oil to explain any significant variations from the agreed budget and the reasons for such variations. It will also provide a suitable vehicle for discussion of adjustments required to the allocation of funds, which are likely to occur with such a large number of technical projects being run concurrently. This is especially important

because many projects are interdependent and delays may require internal reallocation of funds to optimize overall progress.

H. Exchange rate

41. From the very beginning of the mission, the issue of the exchange rate between hard currency and the Iraqi dinar was seen to be pivotal to any arrangement that would fulfil the requirement of paragraph 15 of resolution 1330 (2000).

42. The team of experts had no authority under their terms of reference or under the provisions of resolution 1330 (2000), paragraph 15, to make any decisions or agreements on this issue, and thus refrained from doing so.

43. The team of experts noted only the arguments put forth by the Ministry of Oil in support of an exchange rate of ID 450 to US$ 1, which are included in the full report of the team of experts.

44. It should also be recalled that in its resolution 1330 (2000), paragraph 15, the Security Council allocates a sum of up to 600 million euros. At the same time, it should be borne in mind that the United States dollar is predominantly the currency of the oil industry.

45. Starting from a euro-denominated figure will therefore involve a floating exchange rate between the euro and the United States dollar, even before the issue of the exchange rate between hard currency and the Iraqi dinar is addressed. Therefore, unless a fixed rate is adopted for the purpose of the time period identified for any arrangement approved by the Security Council the resulting monthly Iraqi dinar figure available will fluctuate.

46. The budget for the cash component is presented in Iraqi dinars, but it should be noted that the Ministry of Oil is required by the Ministry of Finance to record all expenditures under the cash component exercise in hard currency.

47. It is therefore the expectation of the Ministry of Oil that when an exchange rate between hard currency (either euros or United States dollars) and the Iraqi dinar is adopted, the cash component budget will be converted into either euros or United States dollars at that rate.

I. Conclusions

48. The main conclusions of the team of experts are as follows:

(a) The value of spare parts and equipment for the oil industry so far delivered is $650 million. The value of spare parts and equipment for the oil industry to be delivered by December 2001 is estimated to be about $1,000 million, and the value of those to be delivered by June 2002 to be about $1,400 million;

(b) The Ministry of Oil has established an urgent requirement for a cash component provision under the memorandum of understanding to ensure the timely installation and commissioning of oil spare parts and equipment;

(c) The Ministry of Oil has advised that without the installation and commissioning of delivered spare parts and equipment and the completion of civil engineering works facilitating the commencement of approved drilling contracts, crude oil production will fall dramatically by December 2001;

(d) In its resolution 1330 (2000), paragraph 15, the Security Council has made available up to 600 million euros, subject to approval by the Security Council, to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions;

(e) To install, commission and maintain spare parts and equipment for the oil industry, the Ministry of Oil requirement is for a local cash component of about ID 500 billion per annum;

(f) The objective of the proposed financial arrangement is to sustain and eventually increase crude oil production. The effectiveness of the local currency expenditure plan will, in particular, be directly related to the availability of key items of spare parts and equipment associated with drilling and well completion activities;

(g) In line with normal international business and oil company procedures, a budget has been developed with Ministry of Oil officials, supported by site visits by the team of experts, in order to establish the monthly cash flow requirement. This requirement has been prepared in conjunction with the Ministry of Oil, reflecting the Ministry of Oil's internal accounting functions and systems. It has been discussed and evaluated with local operating companies, and identifies a cash component of ID 486 billion over a 12-month period;

(h) The Ministry of Oil has proposed an exchange rate of ID 450 to US$ 1 as the basis for conversion between hard currency and Iraqi dinars;

(i) The budgeting process correlates the proposed projects with associated Comm. Nos. relating to spare parts and equipment either delivered under the memorandum of understanding or for which there is an expectation from the Ministry of Oil of early delivery;

(j) Benchmarking of the installation and maintenance costs of spare parts and equipment with other oil industries in the Persian Gulf region supports the proposed expenditure;

(k) The Ministry of Oil has advised that, for internal reasons, any cash component must be kept separate in the accounts of the operating companies, and the Ministry of Finance has stipulated that all the accounting functions related to this exercise must be internally recorded in euros;

(l) The proposed arrangement is that the funds be initially transferred from the United Nations Iraq escrow account to the Rafidain Bank in Amman and subsequently transferred in euros in monthly instalments to the Ministry of Oil, for transfer to the operating companies in Iraqi dinars against the agreed cash flow requirement;

(m) The budgeting process has identified that the monthly cash component requirements vary, and follow the normal S curve of oil field investment projects. From a practical point of view, however, the variation in the monthly cash component is small;

(n) The Ministry of Oil will produce a quarterly comprehensive review document, covering work undertaken utilizing the cash component and including site visits by an appropriate United Nations entity for the purpose of noting the

effects of expenditure. The quarterly review procedure will note variances in project implementation and progress, explaining areas of significant change from the original plan;

(o) As part of the proposed mechanism, the Ministry of Oil has given approval for up to three monitors to be stationed in Baghdad. Their function will be to participate in observations related to the quarterly review;

(p) It is understood by the Ministry of Oil that the cash component made available under resolution 1330 (2000), paragraph 15, will be renewed concurrently with resolutions of the Security Council extending the mandate of the memorandum of understanding.

Appendix

Work plan

The work plan of the team of experts was the following:

1. Define the range of expenditures to be covered by the funds, and distinguish between these expenditures and those to be undertaken under the current oil for food arrangements.

2. Determine the local expenditures by facility associated with the cost of upkeep and maintenance of oil spare parts and equipment, funded in accordance with the provisions of resolution 986 (1995) and related resolutions, including other costs necessary for the utilization of this equipment, such as:

- Cost of consumables and operating materials;
- Cost of production equipment, supplies and spare parts for the maintenance of existing equipment;
- Cost of implementing new projects to maintain and increase levels of production.

3. Assess the general and recurring operating costs associated with personnel required for the upkeep and maintenance of oil spare parts and equipment, funded in accordance with the provisions of resolution 986 (1995) and related resolutions, including:

- Wages and salaries of employees of the oil sector in Iraq;
- Provision of transportation, health care, housing and related services;
- Training and staff development;
- Occupational health programmes.

4. Identify other relevant expenditures, such as:

- Provision of associated infrastructure requirements, such as fuel, water, electricity and telecommunications;
- Maintenance of oil pollution mitigation equipment;
- Maintenance of fire-fighting equipment;
- Costs of reservoir management;
- Costs of environmental management.

5. Formulate, in consultation with the relevant authorities of the Government of Iraq, the appropriate modalities for the disbursement of the 600 million euros referred to in paragraph 15 of resolution 1330 (2000) to meet the costs identified above. These modalities should take account of:

- The various companies currently performing these operations in Iraq;
- The unit cost parameters for the calculation of various cost categories, benchmarked with local applicable norms and calculate cost distribution;
- The different types of expenditures and practical implementation thereof;
- A programme for funding agreements with the Government of Iraq;
- The mechanisms of funding approval.